The MAGAZINE of WALL STREET

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MARKET OUTLOOK

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THE OUTLOOK

The War and Investments—American Labor Power—Money and Exchange—Liberty Bonds Below Par—Who Buys the Stocks?—The Market Prospect

INVESTORS, many of whom were prematurely optimistic, have now settled down to the expectation of a long war. The great question is whether the prolonged decline in security markets has been sufficient to measure the effects of the big demands upon our resources.

Complicated Factors

THE WAR prospect seems as far from solution as ever. Russia is apparently out of the picture, so far as any active participation is concerned. On the other hand, her immediate resources are so exhausted and her transportation facilities so poor that it is question whether Germany could draw any great quantity of supplies from her even if a separate peace were successfully arranged. The German invasion of Italy has been halted. The Titanic struggle on the West front continues without either side winning any decisive advantage. It is a test of endurance.

The U-boat menace, though lessened, is still a vital factor. Average weekly arrivals and departures of British vessels in November were about 85 per cent. of those of July, and there can be no doubt that Allied operations are being restricted by scarcity of materials. The most acute lack is that of coal. Even in this country production is being limited by under supplies of raw materials, while in France and Italy the scarcity of coal and gasoline is a very serious factor in the war lookout.

American Labor Power

WE CANNOT apply our own labor-power as effectively as the Germans, for two reasons: First, because we are too far from the battle line, and second, because our people have not the German trait of implicit obedience to autocratic authority. That idea is, in fact, the particular thing we are fighting against. We don't like it and don't propose to have it established as a world-principle.

The result is scarcity in the midst of plenty. Our war production is being limited by scarcity of coal, coke, iron, steel, transportation, shipping, etc., in spite of the fact that we have plenty of these resources in an undeveloped form and plenty of labor to develop them if it could only be induced into activity.

Money and Exchange

BANK LOANS are being very rapidly inflated and Federal Reserve notes in circulation now exceed a billion dollars, an increase of about $650,000,000 since we entered the war last April. The Federal reserve of gold against notes was nearly 100 per cent. in April but has now fallen to about 62 per cent. This is still an abundant reserve, but it is plain that rediscounting operations as well as bank loans throughout the country must continue to increase.

It is the firm hand of the Federal Board, aided by the co-operation of our great banking institutions, which keeps call money at 6 per cent. and prime commercial paper at New York at 5½ per cent. The same firm control will of course continue, and the new banking system contains plenty of resources to prevent any dangerous rise in money rates. A temporary rise in call money above 6 per cent. would not essentially change this situation.

The Board has recently been placed in control of foreign exchange rates also, but in that direction comparatively little can be done. It would be hopeless, for example, to attempt to restore Italian or Russian exchange to normal rates. With the printing presses busy throughout Europe in turning out new money, that money cannot be made equal to our gold by any sort of financial legerdemain. Previous to July, 1914, the Russian State Bank had authority to issue 300,000,000 rubles of paper without gold cover. Last July this limit had been raised to 12,500,000,000 rubles. Where the limit will be in the present chaotic condition of Russia it would be hard to guess.

Liberty Bonds Below Par

WHILE THE present price of around 99 for the Liberty 3½'s and 98 for the 4's are unquestionably due to selling by those who, for one reason or another, had oversubscribed, it is nevertheless generally assumed by bankers that later Government bond issues will have to yield more than 4 per cent. Since the present bonds are exchangeable into any later issues at a higher rate of interest, there is no reason why they should decline from present figures unless the next bond issue should bear a rate lower than demanded by the demand-and-supply situation in the market for capital at the time.

With more Government bonds coming, the outlook for corporation bonds is not especially encouraging. Nevertheless, some classes of bonds have shown an ability to rally within the last two or three weeks. The level of bond prices seems to have discounted the situation as it now stands, but whether it has also discounted the prospective war demand for further supplies of capital is perhaps doubtful.

Some Investment Demand for Stocks

WHEN A great many stocks are thrown on the market somebody buys them. Who has bought during recent periods of weakness?

Some light is shed on this question by the fact that broker's loans in Wall Street have been reduced nearly one-half during the last six months. This reduction is of course due in part to the lower range of prices—smaller loans are required to carry the same number of shares of stocks. But it is clear also that a much larger proportion of stocks are now in the hands of cash buyers than at any previous time for at least two years.

The small investor, who buys his stocks outright at what he believes to be low prices with the expectation of holding them as long as may be necessary, has been a growing factor in the market lately, and the improvement in technical conditions has been partly due to his operations. There has also been some accumulation of selected issues bought on a scale down by banking interests.

The Market Prospect

WHETHER absorption of stocks for cash or by margin holders who will not let go has yet been sufficient to end the long decline is still a doubtful question. Some of the best railroad issues, in which speculation has been at a minimum for several years, are showing increased ability to withstand the pressure of liquidation. As a whole, the market so far gives no indication of any considerable advance. The recent rally was rather better sustained than any previous rally since June. But the immediate outlook is for a drifting market, with more probability of a downward drift than an upward one.

December 3, 1917.

Pertinent Comment

Vital Factors in Finance and Business

PRESIDENT LOREE says the railroads are strangling to death, in spite of their record-breaking gross earnings. Viewing the situation broadly, few will quarrel with his conclusion.

The rope of rising expenses is being steadily pulled tighter and tighter over the immovable tree-branch of stationary rates. It is true that the Interstate Commerce Commission has bent the branch down a little by means of small increases in rates, but not enough to ease perceptibly the aching throats of the roads.

Also, the Government has tried to lessen the strain on the rope by fixing the prices of some of the things the roads have to buy. But the prices of many things cannot be fixed, notably wages. And taxes keep growing like weeds in a fertile garden.

* * *

What's the Answer?

The immediate answer should be a raise in rates and it is hard to imagine how the Commission can see it in any other light. But what is the more permanent answer? A 15 per cent increase in rates will not cover the actual rise in expenses. In the mean time maintenance of way and of equipment are falling behind, and in order to maintain the highest war efficiency, our transportation machine must be well oiled and kept in the best repair. That is almost the first step toward winning the war.

Since the capital market is being swept almost bare by frequent Government loans, the only answer Wall Street can see now is Government assistance by the guaranty of new railroad bonds or notes. That would enable the roads to borrow at reasonable rates of interest.

* * *

Shelving the Sherman Act

Good-bye Sherman Act! Few will shed tears over its demise. Dr. Military Necessity is preaching the funeral sermon and the pall-bearers are gathering around the bier.

The railroads are pooling their resources and equipment under the supervision of a group of railroad men who have been constituted into a Government Board. To one who remembers the long, hard fight of the Government against railroad pooling a couple of decades ago, the present situation is something of a joke.

Only a few years ago, in fact, the Government spent many thousands of dollars to pry Union Pacific and Southern Pacific apart and to separate New Haven and Boston & Maine. But now that railroad efficiency has become a war necessity, the Government is busily trying to put the roads together again into a far broader and closer pool than was ever attempted by private interests.

The plain fact is that the Sherman Act is an echo from a past age. Unrestricted competition is possible, and perhaps desirable, among ten Chinese laundries in one town. We can't be sure even of that much, for the chain stores and the mail order houses have shown us the economy of combination even in handling the smallest kinds of retail business.

* * *

How Can We Raise the Billions?

We have about reached the limit in taxation. In the main, our war tax program is sound and well adapted to the necessities of a strenuous situation.

Taxes have not been evenly distributed. They never have been, in the entire history of the world, and in the stress of war the difficulties of securing just distribution are insuperable.

For one thing, we haven't time to study the question out. Incidence of taxation, as the scientific economists like to call it, is an intricate science. We have hardly reached a full understanding of it, to say nothing about putting it in practice. All Governments have followed the rule-of-thumb plan of taxing where they could get the money the easiest and with the smallest amount of kicking by taxpayers. And a war taxation program drawn up in two or three months is bound to contain injustices to many individuals and corporations.

Moreover, the most important question now is to get the money—as much as possible

and as quickly as possible. To achieve that end it is necessary to strike where the money is, to lay the heaviest taxes on the people who can pay them, if necessary, out of past accumulations.

But from the practical point of view, capital is now being taxed to the limit of wisdom. If higher taxes must come, they should be laid on luxuries. There is no economic reason why theatre tickets, jewelry, gasoline used for pleasure purposes, costly gowns, wines, expensive cigars, should not be taxed 100 per cent by means of gradual increases. The more consumption of these things is cut down by taxes the better, while the war lasts.

* * *

No Limit to Government Borrowing.

There is no limit to the amount a Government can borrow for its own war expenditures. Germany has shown us that. This is because the money so borrowed flows right back to the people again through Government expenditures. Then it can be borrowed and spent a second time, and a third time, and so on. This is, of course, not a complete description of the process, but it indicates the principle.

The limit to our war endurance does not lie in loans, nor in anything connected with money, but in labor. Fighting the war is simply a form of work. In order to win we have got to divert all our energies to war purposes, to put all our idle citizens to work.

So we have nothing to worry about when we read that new bond issues may reach a total of $8,500,000,000 by July 1. We can raise the money, and will. The great question is going to be, Can we do the work?

* * *

Thank God for the Federal Reserve Banks

With all our faults, and with all the delays that seem to be an inevitable part of democratic government, we have a way of getting a thing done in time to save our bacon. That was certainly true of our adoption of the Federal Reserve system. Even before 1907, we knew that our money system lacked elasticity. After 1907, we saw plainly that something had to be done about it. It took us eight years to do it, in an adequate way. But we got it done in time for the war and we may well say, in all reverence, "Thank God that we did!"

New York Clearing House bank loans have jumped about a billion, or over 25 per cent, in three months—and the highest money rate has been 6 per cent. That statement sounds unimpressive perhaps. In reality it is our greatest achievement in the war, so far.

Where would we have been without the Federal Reserve system? Not absolutely in the lurch, for we could have rushed through some half-baked emergency measure. But it is fortunate indeed—and to some extent far-sighted—that we mobilized our credit before the war.

* * *

Where Will Inflation Land Us?

We asked that question of the president of one of the biggest banking institutions in this country. His reply was, "I wish I knew. I am entirely in the dark about it. If you find out let me know."

We have a pig iron famine, a coal famine, a coke famine—but without famine prices, because the Government has fixed prices. We have a panic level of prices in the security markets—but without the panic, because the Federal Reserve Board has a firm grip on money rates. Many of our corporations are earning 50 to 100 per cent for their stocks, but there is no speculative boom in the stocks, because—in part, at least—of the heavy war taxes.

There is famine in the supply of capital available for private enterprises, yet general business is exceedingly active. Always in the past, the limit to business activity has come through a falling off in demand. Now the limit lies in scarcity of supply.

We are being stood on our heads os often, and by so many different things, that the landscape begins to swim around us. No sooner have we analyzed some new condition—to our own satisfaction, if not to other people's—than we are confronted by half a dozen other new conditions, all interlaced with the first one. The world-in-war is constantly performing impossibilities and constantly creating new paradoxes.

Why Security Prices Fall

A Very Important and Fundamental Reason to Which Little Attention Has Been Called—Measuring Interest or Dividend Checks by What They Will Buy

By G. C. SELDEN

WHEN a great economic change takes place it is often the case that every other possible cause except the right one is mentioned first. Mankind is indeed "addicted to the obvious." The superficial incidents and accompaniments of a great fundamental change are quickly seen and readily caught up and bandied about as causes, while the real cause may not be recognized until long after current events have become history.

That is what has happened during the great fall in investment values since the war began. The decline has been attributed to "bear raids," to liquidation by overloaded speculators, to German victories on land, to fears of destruction of commerce by submarines, to selling of securities by millionaires to avoid paying income taxes, to Government price-fixing, to the excess profits tax, to the inability of the railroads to raise their rates, to foreign selling, and to a thousand and one other similar causes.

All these factors have been, at one time or another, incidents of the decline and more or less temporary and immediate causes of falling prices.

But there is a cause which lies very much deeper than any of these and which works against values as inexorably as the laws of the Medes and Persians. I have hardly seen it referred to more than two or three times in the three and one-half years of the war, and then only in a casual way. Its effects may be postponed, temporarily nullified, or even reversed for a time, but in the long run they have all the inevitability of the rising tide.

Interest Rates as Buying Power

When the investor, the buyer of commercial paper, or the savings bank depositor, speaks of getting 4 per cent, 6 per cent, or any other rate of interest on his money, he generally thinks very little about what that interest rate will buy. The high cost of living is something that he is acutely conscious of, being frequently reminded by his monthly bills, but he considers this as something entirely apart from interest rates.

For years—all his life, probably—he has been accustomed to think of 6 per cent as about the highest rate of interest that can be obtained from safe investments. He has thought of 5 per cent as about a normal return from good securities. It does not occur to him that the rising cost of living will make any special change in this condition.

But the interest rate obtainable from any investment is in reality nothing but a fixed amount of money payable quarterly or semi-annually—and all that money is good for is to buy things with, either now or in the future. A dollar bill has no value in itself. Its value lies in the things for which it may be exchanged.

That sounds elementary, but we always forget it. We have become so accustomed to using money as the standard by which to measure other values that we unconsciously assume that it is an absolute standard. It is only now, when the buying power of our "absolute" standard has shrunk almost one-half, that we are beginning to realize that money is nothing but a *relative* measure.

Take the investor who is getting $5.00 a year interest on a $100 bond. That $5.00 is a part of his yearly income. It doesn't matter whether or not he spends it at once. It may even represent a part of his yearly savings. In any case it is a contribution to his income, and out of that income he pays his annual expenses.

What happens when his annual cost of living rises? All his income shrinks in purchasing power, including the $5.00 interest money with the rest.

How the Interest Coupon Has Shrunk

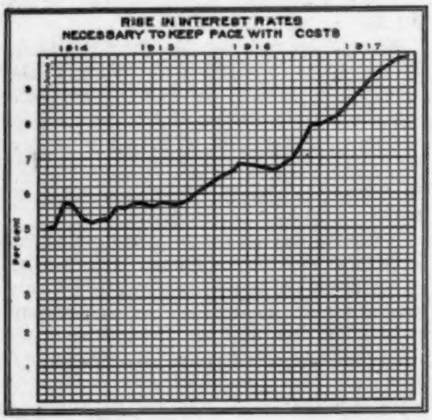
We have various approximate records of the general level of commodity prices—

that is, the cost of goods of all kinds—from month to month. Before the war the public paid little or no attention to these "index numbers," but their importance is now being forced home.

These index numbers are made by adding together the money cost of a fixed quantity of a large number of articles once a month. The resulting total means nothing when standing by itself, but from month to month it shows the *relative* changes in the general price level.

The graph herewith is based on one of these index numbers (*Bradstreet's*). It shows from month to month *the interest rate which would buy the same quantity of goods that a 5 per cent rate would buy in June,* 1914, before the war.

For example, in July, 1915, when the



war was a year old, an interest rate of 5.74 per cent was necessary to buy as much goods of all kinds as the 5 per cent rate would buy before the war. A year later, in July, 1916, a rate of 6.71 per cent would have been necessary. And in November, 1917, a rate of 9.90 per cent would buy only as much as a 5 per cent rate bought in June, 1914.

What does this mean? Suppose you need every year a quantity of various kinds of goods which would have cost you $3,000 in June, 1914. Suppose you need to get one-third of that income (measured in goods) in the form of interest money. At that date you would have had to invest $20,000 in 5 per cent bonds at par to give you the interest money needed to buy one-third of your year's necessities.

To get the same result in November, 1917, you would have to invest that $20,000 in bonds paying 9.90 per cent. Or if you invested it in 5 per cent bonds, you could afford to pay for them only the price which would give you a yield of 9.90 per cent on your investment. The actual price you could pay for the bonds would vary with the length of time before maturity, but it is plain that it would be very low. In the case of a stock, which has no maturity date, that price would be 50½, as compared with 100 in June, 1914.

How It Works Out

Security prices did not fall month by month to correspond with the fall in the purchasing power of money, for two reasons: First, because the prices of many securities are influenced by earnings as well as by the "goods-value," so to speak, of their interest or dividends. Second, because buyers and sellers of securities are not accustomed to look at the matter from this point of view—and prices are made, not by actual conditions, by conditions as refracted and modified by passing through the minds of investors.

Nevertheless, the rising tide of the cost of living must eventually reach interest rates, and through them must depress the prices of securities.

At first, the investor looked upon the high cost of living as temporary. He based his reasoning about interest yields on before-the-war conditions. But little by little he began to feel the increasing pressure. In some cases he was obliged to sell some of his securities because he needed the money. That had its effect in depressing prices. In other cases the money that the investor would naturally have been accumulating and putting into new securities failed to accumulate, hence he did not do his customary buying of stocks or bonds. That had the result of decreasing the demand and thus depressing prices.

Then came another tremendous increase in investors' annual expenses, in the form of Government taxes, and bond subscriptions which patriotism made a necessity. Many were obliged to sell more of their securities.

Others, seeing the downward trend of the security markets, sold out because they

believed they could buy back cheaper at a later date. Result, a further depression of prices.

So, in roundabout ways, the effects of the decreased buying power of interest or dividend checks eventually makes itself felt in the markets, even though the sellers of securities do not make the actual connection in their own minds. If they do not see it, events force them to act, to some extent at least, as though they did see it.

Dividends Versus Costs

The actual fall in prices of purely investment securities has not, of course, been enough to raise the interest or dividend yield to correspond with the rise in the cost of goods. It is not likely to be enough for that, for every one expects that the great increase in commodity prices will prove temporary, at least in part; and to that part of the increase which may prove permanent it will take years for investors to become thoroughly accustomed.

Moreover, such a great economic change as that involved in the war works itself out through many and devious channels. Only a part of the result falls directly on interest rates obtainable from investments. The readjustment extends throughout every part of the entire business structure.

Still another important reason is that the cost of living, taken as a whole, has not risen as much as the cost of goods shown by index numbers. Rents are an important item in the average person's cost of living, and rents have not doubled. In some cases they are unchanged, being controlled by leases. In other cases they have risen 10 to 25 per cent.

Wages, also, enter into many current costs, and these have not risen as much, taking an average for all lines of employment, as the direct cost of goods.

Again, cheaper substitutes are being used for many articles. People are wearing socks three or four parts cotton to one part wool, where formerly they were perhaps all wool or half and half. Grades of clothing have been reduced, substitutes are being found for sole leather, and so on.

But these modifying facts do not change the general principle. Interest and dividends are money, and if the money will buy less, then the interest and dividends have to be higher in order to represent the same thing to us in actual, usable value.

That is the underlying cause of the great fall in investment securities, and there should be nothing mysterious about it.

FROM OUR READERS

Please accept my sincere congratulations on your 10th Anniversary. Your magazine is without an equal in financial literature.

* * *

Permit me to congratulate you on the publication of the Decennial Anniversary number of America's Greatest Financial Publication.

* * *

We frequently read the Magazine of Wall Street and find it an unusual magazine. In fact, I prefer to read it to anything published regarding stocks and bonds.

* * *

My personal opinion of your magazine is that it is one of the most powerful, straightforward books published, and written so any one who reads can understand.

* * *

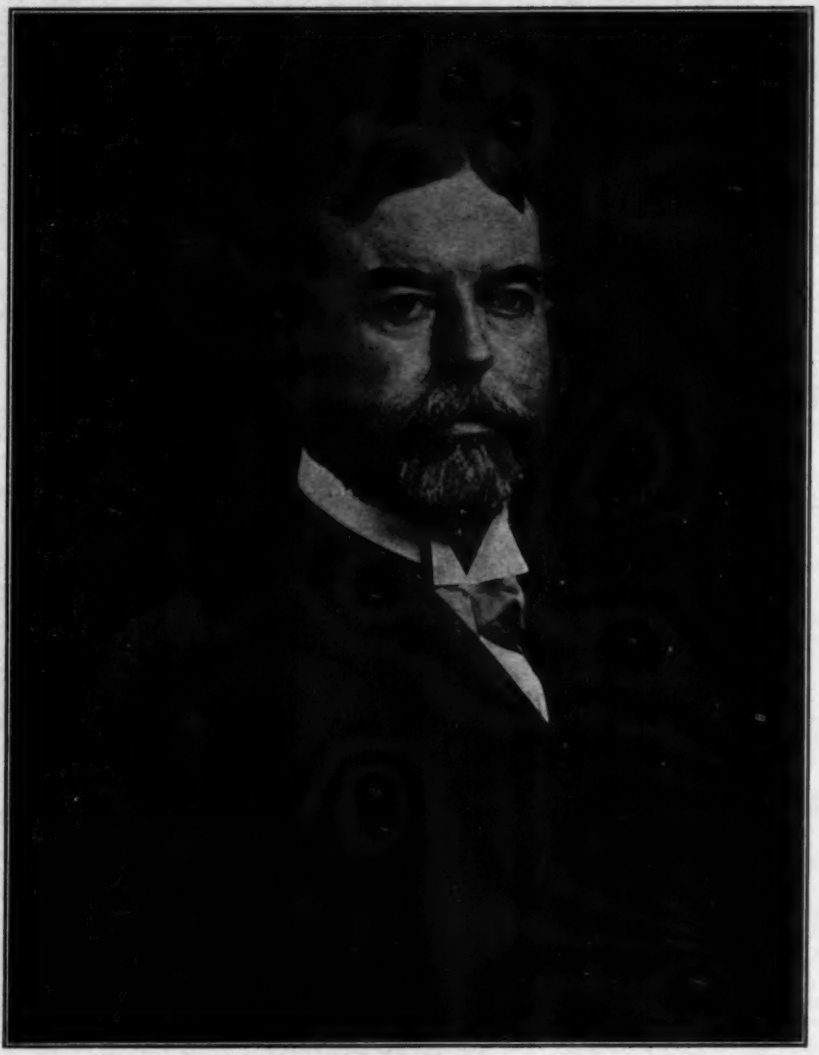
Your publication seems to me to be by far the most valuable printed, for the purposes of the average investor.

* * *

I wish to thank you at this time for the prompt and efficient manner in which you have handled past inquiries from me and would further state that if I had always acted upon your advice I would be in a better financial state at the present time.

* * *

I have been a subscriber for a number of years to your Magazine, and I think, it has been mutually advantageous: your clear presentation of *facts* in your Analysis of all Reports has won my respect as a conservative investor.



Mr. L. F. LOREE

President, Delaware & Hudson Company, and Chairman, Eastern Department of the Special Committee on National Defense of the American Railway Association.

L. F. Loree, or "L. F.," as he is known among his intimates, and whose ideas on the railroad situation, as given to "THE MAGAZINE OF WALL STREET'S representative, appear on the following pages, belongs to the "shirt-sleeves" generation of railroad presidents as contrasted to the "white collar" species which has become all too common in late years. In other words, he began at the bottom and worked to the top. He knows railroading from boiler to bolts. The complete story of his career, which we hope to publish at some other time, is replete with human interest. The following incident which took place at the outbreak of the great war is an excellent character index of the man. At the commencement of hostilities Mr. Loree was in Europe and was at once importuned by throngs of stranded Americans for assistance. Without a moment's hesitation or consultation he chartered, at his own expense, the steamship *Antilles*, loaded it up with compatriots and despatched it to the U. S. A. That act expressed the Loree philosophy, i. e., when it is necessary to do a thing, don't talk or "confer" about it, but do it immediately, efficiently and quickly.—*Editor*.

"Railroads Are Strangling"

L. F. Loree Discusses the Railroad Problem—Cause and Cure for the Troubles of the Roads—Delaware & Hudson's President an Optimist but Insists Something Must Be Done to Relieve the Present Situation

By BARNARD POWERS

WHEN I request a prominent man to speak to the readers of THE MAGAZINE OF WALL STREET, I assume that he investigates me before he gives consent. Conversely I always look him up before making the request. So I had already looked up Mr. L. F. Loree, president of The Delaware & Hudson Co., before I arranged an appointment with him. I had, of course, known of Mr. Loree, his work, writings and speeches in a general way for years, but I wanted to know the inside of the why of his leadership of one of the great railroads in this country. I found out in very short order that there is but one reason why Mr. Loree has attained his present position in the railroad world and that is because he has earned it by the best use of an extremely capable mentality, backed up by that greatest and absolutely essential qualification—the capacity for the hardest sort of hard work.

That sounds like a very trite rule for success—and it is. But it is the only one. In gazing at big figures in business and finance one loses sight of, or, rather, one fails to see, the machinery behind the success—the long years of study and application, the discouragements, semi-failures or even the disasters, which are necessarily a part of the wool and fabric of every big accomplishment. It is as true today as it always was and must always be, that the man with the mental and physical punch must win in the end. Our entire economic system is founded upon competition and it is inevitable as the law of gravity that the strongest must survive and will gain the rewards.

Some Matters of Interest

In my study of Mr. Loree I found out some very interesting things. In the first place, I found out that he was born in Fulton City, Ill., fifty-nine years ago; that he graduated from Rutgers College where he distinguished himself in mathematics and science, and that he began his railroad career in 1877 when he slung a surveyor's tripod over his shoulder in the service of the Pennsylvania Railroad. For two years he was in the engineering corps of the U. S. Army, worked as leveler, transitman and topographer on the Mexican National Railway and during several years following of experience on several systems, developed and applied the arrangement of lap-passing tracks with numbered switches and worked out a train despatching system that greatly facilitated single track operation. Passing over the lesser details of his rise, which we may not set forth at this time through lack of space, we find Mr. Loree General Manager of the Pennsylvania lines west of Pittsburgh in 1896. It was while in this capacity that he established the first organized railroad police force in the United States and with the aid of Josiah F. Willard, the famous criminologist, eliminated the tramp nuisance on the Pennsylvania Railroad.

Enough has been said to show that the present head of "D. & H" is entitled to that much abused designation of a "practical" railroad man. In 1901 he was fourth vice-president of the Pennsylvania and then was elected to the presidency of the Baltimore & Ohio, which he held until his resignation in 1904 to become president of the Rock Island Co. and chairman of the executive committee of the Rock Island Railway. He resigned from these two positions in October, 1904, becoming chairman of the executive committee of the Kansas City Southern in 1906. From that office he was called to the presidency of the Delaware & Hudson in 1907 as well as to the presidency of and directorship in, the

thirty-four companies controlled or affiliated with the D. & H. The list of the offices and positions of trust and honor which he has held and those which he holds now, is so long that their recording here would weary the reader.

One of the many important public services which Mr. Loree has rendered is of especial interest now, and at the risk of being long-winded I narrate it here.

At the outbreak of the European war in 1914, great anxiety was felt in the United States regarding the amount of American securities held abroad and the effect on the financial situation here should these securities be offered for sale.

Attempts were made by bankers and by the United States Government to ascertain the facts in this respect, but without success, and, finally, Mr. Loree was requested to investigate the situation. The results of the inquiry were placed at the disposal of the Federal Reserve Bank. The data assembled in this investigation was considered of great public importance and was given wide publicity.

Loree in Action

L. F. Loree has a fighting head but the courteous and controlled manner of a man who has himself always in hand. He speaks slowly but easily and naturally. One is impressed by the fact that he is not talking off-hand but is speaking from convictions obtained by long experience and thought. Like E. P. Ripley, Atchison's president, Mr. Loree is given to quaint and homely epigrams which point his remarks much better than any elaborate explanation.

The Railroad Problem

When talking to a man of Mr. Loree's calibre it is important to know in advance exactly what you wish to know. So I told him that it seemed to me that the whole railroad problem divides itself pretty much into the following classifications: (1) the matter of increased rates; (2) the matter of additional equipment and facilities, and (3) the matter of new financing. I told him that I had come to ask his views on those three points because I knew he would have something to say that would interest the 20,000 subscribers to this publication.

"The railroads must have a better rate structure," he said, speaking slowly and carefully, and, I assume, referring especially to the eastern roads throughout the interview, "or we cannot continue operating under present conditions."

"Would the proposed increase of 15 per cent. enable the roads to maintain their present rate of net earnings?" Without answering the question directly he went on:

"Last May we asked for a 15 per cent. increase on class and commodity rates and a 15c. a ton increase on coal, coke and iron ore. Were the roads to receive that increase now, the eastern roads would require another 15 per cent. on class and commodity rates and a further increase of 10c. a ton on coal, coke and iron ore to put them nearly where they were in 1916, nor does that include the recent demands of the four Brotherhoods."

It was clear then that Mr. Loree regards an increase in rates, and a substantial increase, as the crux of the immediate railroad problem. In substantiation of the demands of the roads he said:

"The Government has increased prices all along the line. The coal administration has advanced the price of coal 150 per cent. The food administration has advanced the price of wheat 156 per cent. and the Federal Trade Commission has advanced the price of steel 105 per cent. What do the railroads get? Today the increase granted by the Interstate Commerce Commission of 4 per cent. in railroad rates, indicates by contrast and without the need of argument, the position in which the railroads are being put."

On the second phase of the railroad problem, that of equipment, Mr. Loree does not share some very generally held opinions.

"I do not take the position that lack of equipment is one of the most important factors in the present situation," he said. "I think there is equipment enough. But even if we didn't have enough we couldn't get it so what is the use of talking about it? The makers are filled up on war orders. In my judgment the chief causes for the present railroad congestion are the labor situation, which has been greatly aggravated by the draft, the falling off in effectiveness which always accompanies the breaking in of new men, and the piling up of materials and

supplies on the seaboard owing to the scarcity in shipping tonnages."

Mr. Loree said that no doubt a contributing factor was the fact that during the last five years the roads have had to skimp on upkeep, maintenance and replacements and remarked this was one of the reasons why the eastern roads are worse off than the western lines.

"During the last five years the roads have expended one thousand, two hundred and fifty millions less than at the rate of the preceding five-year period. Since 1907 the roads have added five thousand millions to property account which, except for 1916, has never showed more than a 4 per cent. return on the investment. The facts of the case are," and at this point he spoke with unusual emphasis, "the railroads are being slowly strangled to death."

Asked why the eastern roads are making such poor showing as compared with the western roads, Mr. Loree said that the good showings of the western roads in most instances were due to local and special conditions. One transcontinental line, for example, he pointed out, is doing well because of the tremendous demand for ores, copper, lead, zinc, etc., and raw materials arising from war conditions. In contrast, he mentioned another which is scarcely holding its own, and the southwestern roads which have not been prosperous for years.

"You ask me what are the prospects for increased rates," he said. "Application was made in 1910 for a 10 per cent. advance, in 1912 for 5 per cent., and in 1917 for 15 per cent., every dollar of which was needed, and, we believe, fully justified. However, we were granted nothing in the first case, only 2 per cent. in the second and only 4 per cent. in the third. It has been truly said that to convince people it is not necessary to argue with them, it is only necessary to keep the facts before them; and it must be that ultimately these facts will carry conviction."

Up to this point the reader may have obtained the impression that Delaware & Hudson's president is a bear on the railroad situation Far from it. Mr. Loree sees clearly the needs of the roads and recognizes that something must be done. When the public and the Government realizes that fact, he believes that relief will be immediate and adequate. He expressed the opinion that the pooling arrangements now in hand will go a long way to alleviating the congestion problem, but said that a better rate structure is absolutely necessary.

Asked for an expression of opinion on the long-pull prospects for the better grade of railroad securities, he replied: "The railroad properties are among the most useful in the country. There is an old saying that 'it is always darkest before dawn.' The railroads won't go out of business, they can't go out of business. I am inclined to the belief that it is about time for a rift to appear in the railroad clouds. For that reason I am an optimist on the ultimate prospects for railroad securities."

GOVERNMENT TAX ON STOCK TRANSFERS

Beginning December 1, 1917, a United States Government tax is imposed on all sales of securities. The tax is the same as that formerly imposed during the Spanish-American War and later when the Government decided to raise funds for war purposes in 1915 and 1916.

The tax is based on the par value of the stock sold and is at the rate of 2 cents for every $100 par value of stock or fraction thereof. When a stock has no par value, the rate is fixed on the basis of $100.

Thus, when a broker's client sells 100 shares of U. S. Steel, the tax will be $4. New York State imposes $2 and the U. S. Government gets the other $2. If the sale is 100 Reading (par $50) the total tax will be $2, including both New York State and the United States.

The new law is somewhat changed in form, inasmuch, as it imposes on the broker clerical work which will call for much more bookkeeping than formerly. There are at least 15 items on each transaction where a record must be kept for Government inspection. Uncle Sam desires to know the name of the customer, the time and date of the transaction, whether on an exchange or by private deal, whether the transaction was through a clearing house or direct.

Taxes on original issues of stock by corporations, and various other features relating to the broker, have been reinstated but the client is particularly interested in the above tax on all sales. A transfer of stock is considered a sale and whether actual consideration is received or not, the client who makes the transfer will be charged. It is, therefore, necessary for clients to give names for transfer to their brokers at the time of making purchase. The broker is not permitted to assume the tax unless the transaction was made for his own account.

BUSINESS AND FINANCE SERIES

NO. IV.

Our Electrical Future

What Thirty-five Years of Development Have Accomplished—The Central Station's Dilemma—Possibilities in Hydro Electric Development

By GEORGE A. WARDLAW, M.E.,
Editor, *Electrical Engineering*

Geo. A. Wardlaw

ABOUT 35 years ago, when Edison started his first central station plant in Pearl street, New York, someone said: "Electricity is only in its infancy."

Youthful antiquity has absorbed the unknown author of that remark, but its echo is still sounding down the halls of time. For some reason the phrase-adhering public won't let electricity grow up, though the science and art have long since slipped out of the cradle and are well along toward maturity.

Since the days of the first Edison station, electric service has climbed like the proverbial gourd. At that time, in 1882, an electric light was a novelty, so was a telephone, so was a trolley car. Only the electric telegraph was in general use. Even electric door bells were unusual. During the last 25 years all these electric products have become commonplaces of every day life. So commonplace are they that few persons outside of those directly interested in electrical subjects make any attempt to find out how these things work.

We Are Now Thoroughly Electrified

If he but knew it, every broker has an electrical laboratory of some degree in his own office. On all sides electricity is at hand to help him make his livelihood, yet how many brokers, or their customers, even on dull days, take the trouble to look into the workings of the stock ticker, the news ticker, the telephone, the incandescent lamp, the fan motor, and perhaps the small electric stove that is at hand for warming foodstuffs when the clerks are held overtime in the busy season. If those who make use of these electrical contrivances would look into their method of operation they would soon discover that this erstwhile infant had grown up and become a thing of action and settled convictions.

If in reality or in imagination on a day when business is dull a broker or his customer will take these products of the electrical laboratory and shop and follow the wires that lead into them back to the point where they are first energized, he will find himself surveying the whole field of electrical operation. Following the wires that lead into the telephone, the fan motor, the news ticker, the stock ticker, the incandescent lamp, and the small electric stove, he will discover that there are such things as sockets and receptacles, rigid and flexible conduit, outlet boxes, junction boxes, underground conduits, manholes, service cables, overhead transmission lines, transformers, sub-stations, high tension transmission lines, and, at the other end of the lines, big power houses equipped with automatic coal and ash handling machinery, banks of boilers, turbo generators, step-up transformers, and a gallery completely equipped with controlling, regulating, and measuring apparatus.

Tracing all the lines radiating from the power houses to the sub-stations, then to the distributing points, and finally to the points of consumption, he will discover that though there are more than 3,000 different ways of utilizing electrical energy, the contrivances in his own office represent the

four general divisions of electrical utilization. These general divisions are electric lighting, electric heating, electric power, and electric transmission of intelligence. The electric transmission of intelligence is represented by the telephones and the news and stock tickers; the small stove represents electric heating; the fan motor represents electric power; the incandescent lamp represents electric lighting.

Beginnings

The machinery and accessories used for generating, transmitting, regulating, controlling, measuring, and utilizing electrical energy represents an industry that has grown enormously since the opening of the first central station in Pearl street in 1882. Electrical apparatus first appeared among the classified industries in the census of 1850, when two establishments, engaged chiefly in the manufacture of electromagnetic instruments, were reported with products at $5,100. In 1882 there were 76 electrical manufacturing establishments with a total capital of $1,500,000 employing 1,300 men and turning out about $2,600,000 worth of goods a year. At the present time the total capital invested in all branches of this industry is more than $12,000,000,000. Over 1,000,000 employees turn out a yearly product closely approaching $2,500,000,000.

It is said that 70 per cent. of the people of this country use electricity in some form every day of their lives. Allowing five persons to the average family, means that five million persons, or 5 per cent. of the entire population of the United States derive their living directly or indirectly from the electrical industry.

Like other commodities electricity is manufactured, transported, and consumed. Here the resemblance ceases; for, unlike other commodities, it cannot ordinarily be stored in bulk and drawn upon when wanted. Ordinarily it is consumed as fast as it is made. This is one of its distinguishing traits. A power house must be equipped to meet the maximum demand at any moment. Electricity can be stored in small amounts in so-called storage batteries, but compared with the amount of electrical energy generated—it was close to 2,000,000,000 kilowatt hours in the month of August 1917—the portion that is not consumed immediately, but goes into storage batteries for future use is comparatively small, barely worth mentioning as a matter of percentage.

Another distinguishing trait of electrical energy is that, outside of the small amount which is put into storage batteries, which can be moved from one place to another by ordinary means, it must be transported by wire instead of by rail, wagon, train, or boat. Another peculiar characteristic is that, unlike food, clothing and other commodities which occupy space in proportion to bulk, it can be carried from the point where it is made to the distant point where it is used by means of a wire of very small cross-sectional area. Thousands of electrical horsepower are delivered in this way every day from 50 to 200 miles away over wires less than one-quarter of an inch in diameter.

The Central Station

If all the wires leading into offices, factories, public buildings, and other places could be traced, they would disclose no less than 5,038 central stations in the United States. Supplementing these central stations there are possibly 15,000 isolated plants that supply electrical energy, light, heat, and power to apparatus in office buildings, public buildings, and factories.

All these plants are fully equipped with electrical machinery. Before the war most of these central stations were on a paying basis, due to extraordinary efficiency in the way of management and operation. Coal, the chief source of energy supply was then to be obtained in sufficient quantity at reasonable rates.

Within the last two years, though, due to the greatly increased use of coal by the government, munition manufacturers, and the engineering industry, coal has become increasingly harder to obtain and the price has advanced. Other power plant essentials have also soared in price, until to-day these plants are beset with serious problems that are continuously pressing for solution. Unable to raise their rates for service, the central stations find themselves in a sad plight. There is need for an immediate adjustment of rates for light and power if the power plants are to meet the increasing demand for service from the essential war industries.

This is the most serious problem in the electrical industry to-day. The seriousness of the situation is emphasized by the fact

that the investment in these plants represents a sum equal to $2,098,613,122. These plants have a total capacity of over 5,000,000 kilowatts. The gross earnings for the first half of 1916 of these central stations amounted to $203,500,000. The output was 10,875,000,000 kilowatt hours. In the month of August 1917, they sold $37,000,000 worth of electrical energy.

Electrical Lighting

The incandescent lamps in the broker's office represent an extensive and an active branch of this industry, no less than 120,000,000 such lamps being manufactured and sold in the United States every year. Of these lamps 79 per cent. are known as Mazda lamps; that is, incandescent lamps with a filament of tungsten. In addition to the incandescent lamps there are also arc lamps, mercury vapor lamps, nitrogen filled lamps, searchlights, and the miniature lamps used in pocket flashlights.

All these lamps are made in various sizes and shapes. Due to exhaustive and continuous research the efficiency of the incandescent lamp has increased from about three and a half watts per candle in the carbon filament lamp to close to one watt per candle in the tungsten filament lamp.

In terms of dollars and cents this means that where electricity is to be had for 10 cents a kilowatt hour the cost of burning a 20-watt, 16-candlepower mazda lamp for five hours will be only one cent, against a cost of two and a half cents per lamp for the same period of time for the old type 16 candlepower carbon filament lamp. In other words, due to increased efficiency of the incandescent lamp the monthly light bill has been reduced from, say, $10 to $4. While everything else has soared in price, the cost of electric lighting service has actually decreased 60 per cent. Gas filled Mazda lamps consume only about one-half watt per candle. They are, however, too brilliant to be used in the home.

Electric lamps of all kinds are considered as an essential commodity in war time, especially those used in searchlights. All sorts of craft, sub-surface, surface, and aerial, are equipped with them. Millions of miniature lamps are used in the pocket flashlights in the trenches. About a year ago the possession of one of these flashlights was all that saved a boat load of survivors from a torpedoed ship from drifting beyond help. The tiny flashes in the dark of the night were caught by the lookout in the crow's nest of a searching destroyer.

The most powerful electric lamp in existence to-day is the big searchlight that occasionally flashes from the roof of the Sperry building, Manhattan Bridge Plaza, Brooklyn, N. Y. Operating at 75 volts across the arc, it takes 150 amperes and produces a searchlight with an intensity of 125,000 candlepower. By means of it objects may

Great Plant of the General Electric Co. at Schenectady, N. Y.

be distinguished nine miles away. When projected vertically its rays may be seen at a distance of forty miles.

Electric Heating

During recent years electrical energy has been used in increasing amounts for producing heat. Both small and large electrical heating devices are now flooding the market. Heat is produced by forcing this energy through materials that tend to obstruct its passage. These are known as resistors. The highest artificial temperature obtainable is to be found in the arc between the electrodes of an electric furnace. Here it reaches a temperature of 3720 degrees centigrade.

Heat is always produced when electric current is carried by a conductor. To get rid of heat is perhaps the most serious problem that the designer of electrical machinery has to contend with. The temperature of the coils must be kept down, otherwise the insulation will char, there will be a short circuit, and the machine will go out of business until repaired.

It is the heat produced by the passage of current that blows fuses, puts out the lights, stalls trolley cars, and renders factory machinery inert. Electric fuses act as buffers between the source of supply and consumption. These fuses are destroyed by electric heat in order to protect the rest of the apparatus in the circuit. The fuse business is an important branch of this industry.

Electric Power

In the electrical industry power is symbolized by the motor. There are two general classes of electric motors—direct current motors and alternating current motors. There are several kinds of both classes, the kind of motor to be used depending in each case on the purpose it is to be used for.

The motor is known by its winding. In some places, such as on trolley cars, a direct current series motor is used, this motor being able to start under heavy load and to vary its speed according to load and grade. In other places where the motor used must run at constant speed regardless of load a synchronous alternating current motor is required.

No one type of motor will suit all occasions, and no one has yet invented a motor that will automatically adapt itself to operate efficiently on both direct and alternating current circuits regardless of the characteristics of the circuit. From one point of view the direct current motor is the simplest, because only the pressure and the amperage of the supply circuit have to be considered. In the alternating current motor we must take into consideration not only the electrical pressure, or voltage, and the amperage, but also the phase and the frequency. What motor to use is often something of a problem to decide. The electrical manufacturers keep a trained corps of engineer-salesmen employed in order to solve these problems for their customers.

Electric power is so generally applied nowadays that no attempt will be made to define its manifold uses. It is to be found in all modern shops and public buildings, also in many offices and homes. Without electric power many things that are now commonplace would have been either impracticable or impossible. The subways, the tubes, and, biggest of all, the Panama Canal, and the new Ashokan Aqueduct would still be in the brain of the engineer, or in the drafting room, were it not for electric power.

The smallest electric motor is to be found in holiday toys; it is only a small fraction of one horsepower. The largest motor has a capacity of about 8,000 horsepower. One electrical horsepower will do the work of ten men without tiring. Operating continuously, a one horsepower motor will do as much work as thirty men working on eight hour shifts. Last year there were made and sold over $50,000,000 worth of electric motors.

Transmission Lines

Radiating from the central stations are transmission lines that usually carry electrical energy at very high pressure. These lines are now to be found in all sections of the United States. Owing to its nature, alternating current is invariably sent out from the power house when the energy has to be transmitted to any distance.

Electrical energy has two components—pressure, or voltage, and rate of flow, or amperage. Multiplied together they give volt-amperes, or watts. The same amount of watts can be transmitted by sending a large number of amperes at a low pressure or a small number of amperes at a high pressure. The size of the conductor is regulated by the number of amperes. As the conductors have to traverse great distances—sometimes as

much as 240 miles, as in one plant in California—the diameter of the wire must be kept down to a minimum. This is effected by stepping up the voltage at the power house by means of transformers. In this California plant a pressure of 120,000 volts is used on the transmission lines. It is stepped down again at the distributing end by means of transformers and supplied to the local industries at ordinary working pressures of 550 volts for street railways, 220 volts for power, and 110 volts for lighting.

When direct current is required, as it always is for street railway and electrochemical purposes—the electrochemical industry is both extensive and essential—it is obtained from a rotary converter which usually takes in alternating current at 390 volts and converts it to direct current at either 550 or 110 volts. Most of the big high tension transmission plants are operated by water power.

Transmission of Intelligence

Under this heading we find all those systems that convey messages from one person to another. Here we find the telegraph and telephone companies, the wireless companies, the news tickers, and the stock tickers. There are 9,151,221 Bell telephones in use in 70,000 cities and towns in the United States. Last year 8,652,400,000 messages were sent over the Bell and Long Distance lines. To this extraordinary volume of chatter must be added the large number of messages sent by wireless and also over the independent telephone lines scattered throughout the middle west. About $30,000,000 worth of telephone, telegraph, and ticker apparatus was manufactured and sold last year.

The Future

No one who understands the nature and extent of the electrical industry has any doubt whatever about its future. There may be a falling off in the extraordinary fundamental discoveries of the last 25 years, but increasing efforts will be made to standardize all existing apparatus and accessories.

The time is not far distant when complete power stations, including generating station, substation, transmission equipment, and distributing equipment can be bought and set up with a minimum amount of labor ready for use in the locality to which it is specifically adapted.

With the increasing scarcity of coal, followed by rising prices for that essential commodity, there will be a corresponding increase in the demand for light, heat, and power from electric central stations both small and large. Power will be too expensive to make in small quantities. It must be bulked. This condition will force the electric development of all our idle water powers. Instead of having a comparatively few high powered long distance transmission stations such as we have today in the stations on the Tennessee River at Chattanooga, the Mississippi River at Keokuk, at Niagara Falls, in Utah, in Montana, in California, in South Carolina, and in Massachusetts, the rest of the idle waters will be harnessed and put to work.

To equip these plants will tax the resources of the manufacturers of generators, motors, converters, transformers, switchboard apparatus, transmission towers, and the innumerable small accessories required by the wiremen. An idea of the quantity of apparatus and accessories that will be required to equip these prospective plants is reflected in a remark recently made by Franklin K. Lane, Secretary of the Interior, for according to him enough hydroelectric energy is now running to waste to equal the daily labor of 1,800,000,000 men, or thirty times our adult population.

When these idle water powers are set to work generating electrical energy there will be no lack of business for the 1,800 electrical manufacturers, the 7,000 electrical contractors, and the 2,500 electrical dealers in the United States.

Nor will there be any doubt about the dividend returns from the $12,000,000,000 invested in the electrical industry.

MONEY--BANKING--BUSINESS

Value of Trade Acceptances

Their Advantages to Buyers and Sellers, and to the Banks—Dangers of the Open Account System—How the Acceptance Works—What Is Meant by Liquidity

By J. J. KEENAN
Of the National Bank of Commerce in New York

PROBABLY no commercial instrument in common use today is of such ancient lineage as is the acceptance. Its origin dates to the beginnings of commerce, and for centuries it has been used by mercantile nations.

In modern times three main varieties of acceptance are availed of:

The finance bill, drawn by one banker of international standing on another, is used to equalize the money supply and interest rates in the financial centers of the world.

The banker's commercial acceptance, a bill of exchange drawn by a merchant or manufacturer and accepted by a bank of wide reputation, finances practically the entire foreign trade of the world.

Finally, there is the trade acceptance, the sphere of which is in financing the internal or domestic commercial transactions of a country.

What the Trade Acceptance Is

As its name implies, a "trade acceptance" is a draft or bill of exchange drawn by the seller of merchandise on the buyer and accepted by the buyer. On making a shipment of goods, the seller sends to the buyer a written order to pay the amount involved in the transaction on a given date. The purchaser shows his agreement to pay by writing across the face of the draft "Accepted," and signing his name. The bill is then a completed "trade acceptance."

There is a good deal of prejudice on the part of many business men in the United States against the word "draft," due partly to the fact that drafts have not been in common use, and partly to the fact that certain forms of draft have been employed as a means for dunning slow pay debtors.

Merchants, therefore, have come to regard the drawing of a draft on themselves as a reflection on their credit standing. The same merchants, however, if engaged in foreign commerce, do not hesitate to accept drafts for purchases abroad, making free use of drafts when dealing with their foreign customers; and the prejudice against the use of the same credit instrument for domestic trade is simply a matter of custom and usage.

Of recent years, American business men have become more and more dissatisfied with our present commercial credit system. This dissatisfaction has borne fruit in the thorough reorganization of our banking structure under the Federal Reserve System. The old absurdity of commercial banks loaned to their limit and unable to give credit to their customers at the very time when loans would have prevented panics is done away with. The establishment of the Reserve System has made desirable the reconstruction of the credit basis on which our banking and business structure rests.

What are the faults of our present methods which require a change?

"Liquidity" is a word often on a banker's tongue and oftener in his thought. Liquidity is the ability to turn assets into cash rapidly, to meet any emergency that may arise. The power to increase its cash resources whenever there is a demand upon them adds greatly to the strength and soundness of any concern.

Therefore, that the present system of merchant's open accounts is not liquid is a serious fault. The manufacturer sells his product at 60 or 90 days' or 6 months' time. His claim on the buyer is shown in an open account. This is not readily negotiable. For the length of time credit was granted, the manufacturer's accounts receivable are "frozen" and cannot be turned rapidly into actual cash.

In extending credit on open account to customers, manufacturers are acting as bankers. Since their special function is to produce and sell goods and not to act as bankers, this credit extension is relatively inefficient. To have their own credit resources tied up in non-liquid extensions to customers is unprofitable.

Furthermore, when carrying customers on open account, the only paper on which the manufacturer can borrow is his own single name note, backed by a financial statement. This method of borrowing has disadvantages. Other things being equal, a banker regards two-name paper as better than one-name paper. Promissory notes are not granted preferential rates when rediscounted at Federal Reserve Banks. The financial statements behind them must usually be severely discounted by the banker—because the assets there shown, as before stated, cannot be liquidated rapidly.

High Cost of Open Accounts

As a result of these burdens of the open account system, sellers customarily offer discounts for so-called "cash" payment. The burdensomeness of the open account is shown by the fact that this cash discount is ordinarily many times in excess of market interest and discount rates.

To Europeans who are accustomed to financial commercial transactions at the lowest rates in the market, the enormous difference which American business men make between cash payment and credit seems absurd. *It is the price paid for the non-liquid form in which our commercial credit is put.*

Further, the open account system leaves transactions in an indefinite form. The claims of the seller are shown only in book accounts. He has no protection against the abuses of taking unearned discounts and of exceeding the maturity of the credit.

No one claims that the trade acceptance is a cure for all business troubles. But it can remedy some of the defects of the open account system, because it is a definite instrument which can readily be turned into cash.

How the Acceptance Works

The way the acceptance works is simple. When the seller ships his goods he offers the buyer the option of taking a cash discount or of "accepting" a draft for the amount of the invoice, payable at 60 or 90 days or longer. If the buyer does not avail himself of the discount, he returns the completed "trade acceptance."

When the seller carried the buyer on open account, he had on his books an asset which he could not turn into cash. When the seller takes his customer's acceptance, he has in his portfolio commercial paper which he can convert into money at any time and at favorable discount rates.

Trade acceptances, arising as they do out of bona fide commercial transactions and therefore of a self-liquidating character, secured by the names of both buyer and seller, are regarded by banks as good investments and are given preferential rates when rediscounted with Federal Reserve Banks. For that reason the holder of acceptances can easily turn them into cash whenever he desires. The manufacturer who replaces his open accounts with customers' acceptances, therefore, gets rid of his non-liquid assets, and replaces them with assets which may be converted into cash at the holder's option.

Moreover, sales evidenced by trade acceptances are in definite condition. The acceptance fixed a definite date, place, and amount to be paid. The abuses of unfair return of goods, the taking of unearned discounts, and the exceeding of the maturity of the credit, are largely prevented.

This is so because the acceptance forms a written and easily enforcible acknowledgment by the debtor of the amount which is to be paid and the time when it must be paid. In cases where dispute arises, the acceptance is conclusive proof of claims. If bankruptcy proceedings occur the possession by the creditor of such an instrument is invaluable. Any one who has been interested in such proceedings is convinced of the desirability of having back of his claims a negotiable instrument which will be taken by court as prima facie evidence of the nature and amount of obligations due.

Advantages of Liquidity

To sum up, the trade acceptance system replaces non-liquid open accounts with negotiable instruments which can be cashed at the option of the holder. They will finance mercantile transactions at discount rates much lower than those imposed on the

taking of credit under the open account system. Other things being equal, they will command favorable rates at banks. Acceptances put commercial transactions into definite shape, assuring prompter payments at maturity, and checking the abuses so prevalent under our present uncertain and loose system.

Although trade acceptances have considerable advantages over open accounts, it must be emphasized that their adoption does not remove the need for all the prudence and watchfulness as to credit and credit extensions which must be exercised under the present system. As a matter of fact, in many cases concerns of doubtful responsibility or limited credit seem to be looking to acceptances as a means of extending their credit unduly. The danger of credit inflation should be carefully guarded against, and the ease with which acceptances can be rediscounted should not be permitted to result in an undue extension of credit to any concern.

If reasonable prudence is exercised, there is little danger of credit inflation. Abroad, it is avoided by the watchfulness of banks and discount houses which either refuse to discount, or charge exceedingly high rates for discounting undesirable acceptances, when an acceptance line exceeds the amount which the acceptor's responsibility warrants. The same precautions must be observed in this country.

Two Name Paper Strengthens Credit

It is to be noticed that an acceptance is two-name paper. It bears the name of the seller of the merchandise as well as of the buyer. Therefore, due consideration must be given to the responsibility not only of the acceptor but also of the drawer of the instrument. Conversely, prudence must be exercised by the sellers of goods not to become contingently liable on a line of paper which exceeds the acceptor's ability to pay at maturity.

Too much emphasis cannot be placed on the need of care in extending credit on acceptances. The fact that these instruments are definite negotiable instruments on which payment can be enforced at maturity and on which both buyer and seller are liable encourages due caution, and for that reason acceptances are advantageous.

The notion that under the new method every one can have as much credit as he wishes, must be eradicated. If there is any advantage in trade acceptances which warrants their adoption it is that they will make possible greater liquidity and greater definiteness in commercial transactions. That means, not a loosening, but a tightening, of credit as compared with the present system.

Advantage to the Buyer of Goods

From the point of view of the buyer, the use of trade acceptances affords the advantages which naturally result from putting business transactions in a clear, definite form.

Buyers who make acceptances may reasonably expect higher credit standing as a result of their use. The maker of an acceptance puts himself in a preferred class over the buyer who must be carried on open account, because the acceptance forms a definite written agreement to pay strictly according to the terms of sale, and because the seller by discounting can obtain cash for the acceptance whenever he wishes. When sellers have become convinced by a test over a period of time that the buyer's acceptances are paid at maturity and that they can be discounted readily and therefore form an equivalent of ready money, preferential treatment for the acceptors will naturally result.

Better Sales Terms

For the same reason, buyers who close transactions with acceptances may be accorded better sales terms than those who buy on open account. Many sellers already are granting some form of discount to such customers. As acceptances prove their merits in actual use, such reductions in price may be expected to become the rule.

A third advantage to buyers is that the use of trade acceptances tends to check overbuying, and consequent losses from unsalable stocks. Making a definite written agreement to pay at a certain date encourages prudence and forethought in the conduct of business. The acceptor realizes that he must be in a position to meet his obligations promptly. By making obligations definite, and by meeting them promptly, a concern earns a merited reputation for responsibility and efficiency.

Leading Opinions

About Financial, Investment and Business Conditions

"All Must Save"—D. W. Morrow

"If we are to take this war seriously, if the people of the United States are to prove themselves worthy of standing by the side of the nations of Europe in this great struggle, it means that the people of this country must realize that two things cannot occupy the same space at the same time; that the government cannot get the goods and services it needs unless some one else does without them."

Dwight W. Morrow, of the firm of J. P. Morgan & Co., took that for his text in addressing the Bond Club at its regular monthly luncheon in the Bankers' Club.

Mr. Morrow was speaking particularly about the Secretary of the Treasury's arrangements for selling $2,000,000,000 of war savings certificates. He said:

"The fundamental principle which underlies the war savings movement is the release of labor and material for the Government. It is not primarily a bond selling movement; it is primarily a national thrift movement to conserve materials and labor now utilized for non-essentials."

—*The Evening Post.*

ON THE RAMPAGE.

Bankers Advocate Conservatism

Whether or not liquidation in the securities markets has run its course is a question upon which little agreement is found in the financial district, says the N. Y. *Sun.*

Bankers as a rule are averse to giving public interviews on market conditions, but in private talks with many of the more prominent men in the Street we gather that the banking interests as a whole are more optimistic than pessimistic over the general business situation, but that they believe it is a time for extreme conservatism in all operations, a time for confidence in the strength of fundamental conditions and a time when all effort should be directed toward shaping the war along the path of victory.

Bankers do not believe it is a time for wide speculation in stocks, nor do they believe that lower prices are wholly out of the question. Apparently they have not made up their minds as to the position of the market in respect of further liquidation, but they are a unit in the logical theory that the liquidation of the last four weeks and the readjustment of market values to lower levels have been the inevitable consequences of war and the financing of war.

Bonar Law Scouts Repudiation

Speaking at Manchester, England, on Great Britain's financial plans, Chancellor of the Exchequer Bonar Law scoffed at the suggestion of government repudiation of debts. He said:

"I am sorry to say that a determined and concerted effort is being made by a small section to frighten depositors, and particularly small investors, from lending to the State. They say it is not safe. Nothing could be more absurd. These Government loans, both as regards principal and interest, have behind them the whole of the taxes, actual and potential, of the country. That being so, the Government has, at all times, the first call on all the income and all the property of every citizen.

"It is therefore obvious that, as the greater includes the less, these securities, which comprise all others, must be safer than any other security. But it is said there is a danger that this debt will be repudiated. Again, what nonsense! I have heard a good deal of talk about

the conscription of wealth—some people know what they mean and some don't—but I have never heard anyone talk of the conscription of one kind of wealth and the leaving of other kinds of wealth alone. Whatever Government there may be in this country—Coalition, Liberal, Conservative or Socialist—it will never discriminate against that form of wealth which is given to aid the country in her hour of need."

Shipper's Versus Railroad's Dollar

R. J. Clancy, assistant to the general manager of the Southern Pacific Co., discussing the present situation of the carriers, points out that the service a railroad renders is expressed in "ton miles." A ton mile is the equivalent of hauling a ton of freight one mile. What a railroad is able to earn by hauling a ton of freight one mile corresponds to what a workman can earn for his hour of labor.

"In 1913 the railroads received on an average of 7.29 mills for this unit of service. In 1916 rates have declined to a point where the ton mile brought only 7.06. In money this decline amounted to over $80,000,000 in 1916. So that money received for the ton mile was less.

"In 1913, 5,800,000 ton miles would buy a Mallet locomotive. Today the locomotive costs almost 10,500,000 ton miles. To earn the added cost of $74,100 a railroad would have to haul a ton of freight 187 times around the world. So, 172,153 ton miles would buy a box car in 1915, but the small car costs 284,000 ton miles now.

"While the purchasing power of the ton mile has decreased, that of other commodities has risen. In 1915 a ton of manganese was equivalent in purchasing power to 93,000 ton miles. In 1917 it is equivalent to 566,000 ton miles. The purchasing power of the ton mile has dropped all the way from 16 to 60 per cent. in respect to labor, equipment and the 1,200 or more grades and varieties of material ordinarily used by a railroad.

"The shipper's dollar now buys 141.6 ton miles, the largest in history. The railroad's dollar buys the least in history.

That is the railroad gets less dollars per ton mile and the dollars buy less than ever before."

State Control of Tractions

Frederick J. Macleod, chairman of the public service commission, in a statement before the street railway investigation commission of the Massachusetts legislature suggested state aid for the street railways.

He said: "Our suggestion is that the state should, for a limited period, act as the banker, supplying needed property upon the instalment

—New York *Tribune*.

THE NEW GOVERNESS AND THE SPOILED DARLINGS OF THE FAMILY.

plan of purchase, giving the companies benefit of its better credit and of the lower rates of interest which it is able to command. The opportunity ought not to be extended to every company. There are probably certain street railway properties where reorganization is inevitable, or sale at a loss to some other company. The necessary line might be drawn by fixing some standard of past earnings or payment of dividends."

Mr. Macleod further said: "It is true that our street railways are finding it very difficult to obtain capital, but even if they were more prosperous the task would still be a hard one and perhaps impossible with all the countries of the world, including our own, in the market for billions of dollars. It is true that the earnings of the street railway companies have decreased but so have the earnings of the great majority of individuals in these strenuous times when expressed in terms of purchasing power, and the end has not yet been reached."

Mr. Macleod submitted tables showing the net divisible income of all the railways of the state for a period of 20 years, and the percentage on capital stock, eliminating Boston Ele-

vated. The tables show that in 1897 the street railways earned 5.73 per cent. on stock; in 1900, 6.02 per cent.; 1904, 2.51 per cent.; 1909, 5.29 per cent.; 1916, 2.71 per cent.

Street railway managers, politicians, and others interested in rapid transit and municipal ownership in New York, are discussing the address delivered by Travis H. Whitney, Public Service Commissioner, before the Queens Borough Chamber of Commerce at Flushing.

Mr. Whitney suggested that the time was rapidly approaching when the city of New

—Philadelphia *Evening Ledger.*
SNOWED UNDER.

York might take over the street-car lines. This pronouncement, following the success at the polls of the Democratic city ticket pledged to municipal ownership of public utilities, was accepted at the City Hall today as signifying that the trained and disinterested judgment of an accepted transit expert was not unfavorably expecting city control of street-car facilities.

The city, Mr. Whitney said, was already in the transportation business, having invested more than $200,000,000 during some twenty years, and it was his belief that from a business point of view it should have the power to obtain such control or ownership of surface lines as would permit synchronization of rapid transit and surface lines.

Why Stocks Declined—F. H. Sisson

The present depression of securities and the falling stock market are due to three factors, according to Francis H. Sisson, vice-president of the Guaranty Trust Co., of New York, who spoke recently before the Buffalo Association of Credit Men at Buffalo on "Guarding the Nation's Credit."

"The simple fact of the situation is that there is no purchasing power in the market to stay the downward trend," said Mr. Sisson. "That lack is caused, first by Governmental competition; second, by private needs, and third, by uncertainty as to future developments. These causes are all entirely outside the possibility of any one, or of any group, to control.

"The bankers of New York have done their utmost to stay this tide, but without great effect, for the very simple reason that neither they nor any other group can stay the operation of economic laws or alter the effects arising from causes which they cannot control. They have done all in their power to help maintain and stabilize values; and their splendid work in floating the Second Liberty Loan certainly speaks for itself."

Railroads a Storm Center

The agitation around the railroads continues unabated. Rates, wages, preferential freight, new equipment, pooling, Government control — all contribute to the boiling railroad pot. Herewith we present some leading opinions expressed in the last two weeks anent the railroad situation:

Government operation of railways if the pooling plan does not afford relief from congestion was considered at Washington, says the N. Y. *Evening Mail.*

This was as the committee of vice-presidents of eastern lines gathered to perfect general plans to put the pooling arrangements into effect.

Congressional action would be necessary if Government operation was decided upon, but that has been discussed by officials who have been considering what steps would be necessary if the pooling plans should not relieve the congestion.

The operating committee of vice-presidents which will serve under the general direction

of the Railroad War Board, met recently with the board to work out details of the plan of pooling trackage and equipment of the eastern lines. They expected to announce a general plan of operation soon.

Adopted as the most practical suggestion advanced, the pooling plan will be operated entirely by the railroads themselves without Government participation.

Representative Sims, chairman of the House Committee on Interstate and Foreign Commerce, declared that the present railroad problem is unusual and the mistake should not be made of trying to meet it by permanent laws.

"There is one thing which can be done and which I think may be accomplished at this session," said Mr. Sims, "and that is to pass legislation by which the Government would guarantee loans to the railroads at a low rate of interest to enable them to make improvements imperatively needed at the moment and to expand their facilities to meet the usual demands upon them. The railroads cannot borrow money now except at grievously high rates of interest and after they get it they find that on account of increased wages to labor and added cost of material, a dollar does not go as far as it would in ordinary times."

Immediate Government financial aid for American railroads was advocated by Frederick H. Prince, banker and railroad expert, and former Mayor John J. Fitzgerald of Boston, at the session of the Interstate Commerce Commission hearing on freight and passenger rate increases for New England roads.

Mr. Fitzgerald wanted to know why the Government could make loans to France and Russia and for the construction of a shipbuilding plant at Squantum, and not be able to render financial assistance to the railroads of the country. He urged Commissioner George W. Anderson, who is conducting the hearing, to suggest this to the Commission on his return to Washington.

"It seems not unreasonable," said Mr. Prince, "that a loan of $500,000,000 to be secured by railroad equipment should be made to our railroads which are as necessary for the war as any other agency. The mere knowledge that such a loan was available would automatically restore credit, the life-blood of the railroads."

In a brief submitted to the Interstate Commerce Commission in the 15 per cent. advance freight rate case, Clifford Thorne, leading counsel for the shippers, suggests that the Commission recommend that the Government take over the operation of the railroads for the duration of the war.

Mr. Thorne pointed to the fact that Frank A. Vanderlip, New York banker, testified that he believed the rate increase would act only as a poultice and not cure the railroads' trouble, and to the statement of Samuel Rea, president of the Pennsylvania Railroad, that he did not believe the roads should attempt large bond flotations when the Government was putting out loans.

He asked why, if the Government can buy several hundred million dollars' worth of cars and engines for France and Russia, "cannot she buy some cars and engines for American railroads"?

—Chicago *Tribune*.

CAUSE AND EFFECT.

In a statement, Fairfax Harrison, chairman of the Railroads' War Board, points out that the congestion on the railways due to war demands is largely confined to the East, and made the point that this congestion is traceable in great measure to unrestricted extension of the expedient of preference freight. Mr. Harrison's statement follows in part:

"The measures which the Railroads' War Board has adopted to improve transportation conditions in Eastern territory apparently have given many persons an erroneous impression regarding the transportation situation in the country as a whole.

"Reports from the West show that there is no serious congestion in that territory, and that the railroads are handling the traffic in as satisfactory a manner as could be expected

in view of its very large volume. They are not able to furnish all the cars for which shippers ask, but this is largely due to the detention of cars in Eastern territory, owing to the congestion there, which special measures have been adopted to relieve."

Banking and Brokerage Opinions

Hayden, Stone & Co.—Occasionally it is well to break away from day to day influences that are only too apt to shake our opinion on financial matters, and take a wider view of the larger influences that, after all, must govern the major movements of the market. It is now over seven months since this country was drawn into hostilities. It has now largely adjusted itself to the first shock, and it seems a fitting time to take a wide survey of the situation, in the hope of being able to judge more wisely of future tendencies.

Looking back over these momentous months, the first thing that strikes one is that the theory that war, when brought home, is an inflator of values, was quickly exploded. Any tendency in this direction was engulfed in the far more potent influence of the tremendous drain of capital. The necessity, which quickly became apparent, of fixing prices, at once cast a damper on speculative proclivities. This was followed by the necessity of raising huge sums of money, at short notice, by bonds and taxes. The unexpectedness of these demands, the sudden reversal in our position, could be expressed only in terms of liquidation. The rising cost of capital has, in short, been easily the predominating influence. On top of this has arisen a very severe labor problem yet to be fully solved.

As against these, there have been developed other factors of a reassuring character, which have not, in this short time, been able to withstand the adverse influences.

Keane, Zayas & Potts.—It is not forgotten, and never will be forgotten, that fortunes have been made in the stock market; and it is the fact that most of these fortunes have been accumulated under conditions approximating those which exist today. The time to buy is when prices are so low that they can move only in one way—upward. That time seems to be at hand, and it is at hand only because buyers have been scarce. Buyers have been scarce because Government financing had the right of way and occupied all of the road. Government financing is out of the way for the time being, and we are of the opinion that the bargains now to be picked up in the stock market will shortly bring the buyers back in great number.

J. S. Bache & Co.—The market has recovered its equilibrium and its movements are now based upon sounder and calmer judgments of present conditions and future prospects.

Contrary to the course pursued in the last week or two, stocks are not thrown overboard on declines, but reactions are met with diminished offerings. This indicates that the investing public has awakened to the remarkable values obtainable around present levels, and to the fact that a once-in-ten-year opportunity is afforded for purchasing many securities which will return an ample yield while held, and will eventually show substantial gain in principal.

Henry Clews & Co.—Many standard securities, both stocks and bonds, are selling much below intrinsic values, and abnormal conditions have been very largely discounted. These facts have been recognized quite fully, and there has been a great deal of scattered investment buying, small in detail but large in the mass. As a result the technical position of this market has greatly improved by recent liquidation, and prices show much more readiness to rally upon favorable news. The course of prices must, however, inevitably depend upon day to day developments, and this means decided irregularity.

Shonnard, Mills & Co.—Much of the pessimism of the recent past has been based upon the disquieting war news from abroad. At first it was taxation, then price-fixing and labor troubles, and any number of domestic disturbances attributable to pro-German propaganda. What with widespread liquidation in the security markets and baffling selling of Liberty Bonds, it is small wonder that nerves were well nigh unstrung. Now, however, things look brighter, with the psychological change that has come over the financial community.

Goodbody & Co.—We think it probable that an unjustified decline in the good industrial stocks has resulted from the fully-justified declines in railroad and public utility stocks. Many holders of both railroad and industrial stocks have preferred to sell their industrials, which are still far above their low prices of three years ago, rather than to sacrifice their railroad and utility stocks at the lowest prices at which they have sold in the last twenty years.

This is a poor kind of reasoning, but it is the kind that is necessary to cause investors to hold their rails in preference to their industrials. Of course, if as in some unfortunate cases, investors have had to sell all of their holdings, their reasoning faculties need not be condemned on this account.

RAILWAYS AND INDUSTRIALS

BUSINESS AND FINANCE SERIES

No. III—PART 2

Prospects for the Motor Stocks

A Retrospect—An Analysis of the Market Position of Prominent Issues—What to Buy, Hold or Sell

By LAURENCE BEECH

IN the November 10 decennial anniversary issue of THE MAGAZINE OF WALL STREET, Mr. Ernest A. Stephens, associate editor of *The Horseless Age*, pointed out very clearly and very concisely why the future of the automobile industry was assured. He showed how vital the industry was to the material progress of this country—and what American does not believe America will continue to be a leader in the progress of civilization?—and how vital it was to the rehabilitation of shattered Europe after the war.

So you, Mr. Investor, who have unwisely put your dollars into the motors at top prices and still hold these deflated securities, should not get low spirited.

Do you remember that when you tried to buy a place on the band wagon, you had to bid pretty high for your seat? You bought it from a sprightly shrewd looking "old guy" with a lot of money bags. He said he knew there were a lot more bigger ones at the top of the hill, but that he believed in giving the young fellows a chance. After you got on, you noticed that a good many more old men got off with their money bags, but you thought that was fine. It lighted up the load and enabled you and your joyful companions to "whoop things up" and get to the top faster.

A Motor Pilgrim's Progress

But suddenly you found that you had started down the other side of the hill without warning. The going was so fast that it almost took your breath away—as a matter of fact, did take the breath of a number of your fellow passengers who weakened and fell off. You, however, were sure that the brakes would work and that the car would turn around and go back up. And, finally, the brakes did seem to work and you started back up again, and you were still a little nervous, but the driver reassured you and so you stuck.

Suddenly something gives way again and you start back down. And you think you will jump, but just then you look up and see the old men at the top of the hill. They yell to you that it is all right, and tell you not to jump. But you keep on going down and you get disgusted and make up your mind that you will surely get off when the car slows down the next time.

The car does slow down and you are just about to climb off, when you notice that a man is running toward you from the direction of a big building called "Publicity Bureau." He greets you cordially and proceeds to draw a very fascinating word picture of the wealth and prosperity at the top of the hill. He tells you that he is going to direct the driver to a branch road which is not nearly so difficult. Again you decide to keep your seat. The car starts up a little cut-off from the main road. To your great surprise and disappointment you round a curve and start downward again. You anxiously ask the driver what is the matter and he says, "Nothing, I'm just going to get some more passengers down the road."

Sure enough you stop in front of a brightly lighted house that has a sign "Pool Headquarters" over the door. A very hilarious party comes out. They have little cans which are marked "Hot Air." These

they give to the driver and tell him to use when he gets out of gasoline.

Now you are off again and soon back on the branch road, going fine. But the new passengers insist on having the car stopped and filling up the gasoline tank with the contents of the little cans. This they say will add twice as much speed to the car. Some of the cans are apparently emptied into the engine, but the others are put back on the driver's seat, opened.

You start off again at a wonderful speed and the air is made so pleasant by the fumes of the hot air that you irresistibly close your eyes and go to sleep. When you wake up it is dusk. You discover that the car is going down hill again, this time over a very bad road. All of your jolly fellow passengers from "Pool Headquarters" are gone. You feel that you have been shamefully deceived and as you ride on and it grows dark, your ire increases. You finally decide that you are going to see it through to the end, no matter what happens.

Finally you get down in the valley and you stop at a house where there are a lot of very gloomy people. They tell you that you had better not go any further, for there are big ditches ahead, which are likely to wreck the car. They examine the car and find that it is in frightful condition and tell you that it might break down any moment. But one or two people want to know if you care to sell your seat. They offer you what seems a ridiculously low price, about one-fourth or one-fifth of what you originally paid.

You are so discouraged that you are almost ready to sell when you decide to inquire what they want with such a dangerous seat. They say they are willing to take a chance. "But why?" you ask. "Well," one says, "there is the Accumulation Garage up the road. If the car ever gets that far, it may be fixed up so that it will run all right the rest of the way. It is a long road that has no turning, and I have an idea that this road goes around the hill and meets the broad highway that leads to the top."

"Who owns the garage?" you ask.

"Insiders & Co. They are the people who sold out their interests in motor stocks during the boom times, a couple of years ago," you are told. Intuitively you know the Messrs. Insiders to be the shrewd "old guys" who gave up their seats on the way up the hill.

The tip sounds good to you. In fact, the more you think about it the better it sounds.

We agree with you that you should keep your seat, but on *one* condition. Find out if the car is in condition to get to the garage. If it is not, you had better get off and find another car that *will* take you there, or else walk there and get a seat in one of the cars that has been repaired.

All of which brings us to an examination of the position of the various motor stocks.

Willys-Overland's Reserve Strength

There are three salients of strength which give the Willys-Overland Co. a commanding position in the automobile field.

First is its organization, surpassed by none, with the exception of Ford's. Efficiency in quantity production has been the objective of the Overland management.

Secondly, the company, early and well, fortified its cash position with the sale of common stock. This stock was sold a year ago when market conditions were vastly more favorable than they now are, and the company got approximately $40 a share net for the issue of 60,000 shares, or $24,000,000. Nearly all of this was applied to working capital.

Third, by popularizing its cars through extensive and intensive advertising, the company has established itself in a veritable stronghold against competition. Thus its good will is an asset of very considerable value. While the figure of $14,059,932 looks large, yet it may be said to the credit of the company that it carries this good will at far less than the Studebaker and Maxwell Companies. Although this item of good will will equal $10 a share for Willys-Overland common stock, one may leave it out of consideration entirely and still see wonderful intrinsic value back of the shares.

On June 30, Willys-Overland had net tangible assets of $69,708,657, of which $40,012,865 was tangible fixed assets and $29,695,792 net quick assets. Of the net quick, $8,570,405 was in cash in the bank. On this showing of nearly $70,000,000 of assets the common stock had, after deducting $15,000,000 preferred, an

actual book value of $32.86 a share, the highest figure proportionately of any automobile stock in the United States.

This wonderful showing in "invested capital" will let the company out with a comparatively small excess profits tax. A 9 per cent. exemption on the company's invested capital of $70,000,000 will amount to $6,300,000. On the basis of probable net earnings for this year of $9,000,000, the taxable excess will be $2,700,000, 20 per cent. of which amounts to $540,000, or but 32 cents a share on the common stock.

On the basis of the present outstanding common capital of $41,621,825 the dividend requirement at the rate of 12 per cent. per annum is approximately $5,000,000 per annum, and the dividend requirement on the $15,000,000 outstanding 7 per cent. preferred stock is approximately $1,000,000, or a total of about $6,000,000. The record of the company's earnings available for dividends since 1913 is given below. (It should be noted that the periods are irregular.)

	Net Income
1917 (a)	$6,005,311
1916	9,565,718
1915	9,870,678
1914 (b)	3,019,099
1914 (c)	5,231,275
1913 (d)	3,967,677

(a) Six months ended June 30.
(b) Six months ended December 31.
(c) Year ended June 30.
(d) Covering period from November 30, 1912, to June 30.

Admittedly there is going to be a reduction in the earnings of the company from such causes as decreased demand, higher production costs, taxation, etc., etc.

But Willys has reserves of undoubted strength, namely, its aeroplane parts business, to handle which it has recently completed a large new factory in Cleveland; and its interest with the Curtiss Aeroplane & Motors Corporation. It bought control of Curtiss this summer.

In order to establish the aeroplane business on as profiable a basis as the automobile business, it will be necessary to standardize parts to the minutest detail and build a great many of them. The Engineering Department of the Overland Company has been extremely successful in doing this, and it goes without saying that Curtiss will receive orders for as many aeroplanes and motors as it is possible for them to build during the present war. There will not be an immense production of aeroplanes when the war is over, but it is reasonable to suppose that a great many will continue to be used for business and sporting purposes. By that time the aeroplane will have demonstrated its efficiency.

With the foregoing facts before us there is no way of escaping the conclusion that the probabilities of a continuation of the Willys-Overland $3 a share common dividend are extremely good. Even if the dividend is reduced to $2 the stock would yield over 10 per cent. at the current quotation of around 19. Such a price assumes less than nothing for the speculative value of the common, based on the company's entrance into the aeroplane manufacturing field and its affiliation with the Curtiss Company.

The preferred stock stands out as the most attractive among the preferred motor issues. Net tangible assets back of the stock amount to over $450 a share, or more than six times the present market price of $70. Earnings this year will be in the neighborhood of $70 a share for the stock. On the basis of a 7 per cent. dividend the yield is 10 per cent. The dividend is as safe as it is humanly possible for anything to be in the stock market.

General Motors—"Meteor"

Meteoric is the only adjective that adequately describes the rapid progress of the General Motors Co. since the war started; the sensational market career of the stock, or the historic fight, centering around Wm. C. Durant, for control of the management of the company's affairs.

The old General Motors stock sold at 850, higher than Bethlehem Steel and higher than any stock ever sold on the Stock Exchange, with the exception of Northern Pacific. The latter's price of 1,000, as everyone knows, was freakish.

Phenomenal expansion in the earnings of the company in 1915 and 1916 formed the basis, or rather the excuse, for ballooning the company's capital, for the purposes of which the present General Motors Corporation of Delaware was formed to take

over the stocks of the old General Motors Co. of New Jersey.

This is how the earnings of the company have grown: (Years ended July 31)

1911	$3,316,251
1912	3,896,293
1913	7,459,472
1914	7,249,733
1915	14,457,804
1916	28,789,560
1917 (Estimated)	30,000,000

The following tables show how present capitalization compares with the old capitalization and give the equivalent of earnings a share of common for a period of six years on the basis of the present capitalization.

Comparative Capitalization

	Pfd. Shares	Common Shares
New Jersey Co. (Old).....	149,852	165,118
Delaware Corp. (New)....	200,000	826,000

Earnings

Aggregate earnings seven years, partly estimated	$102,000,000
Annual average	17,000,000
Dividends on basis present preferred stock	1,200,000
Amount remaining for common....	15,800,000
Earnings a share on present common	17.90

Consider the possibility of a long drawn-out war with Government restriction of the company's business and decreasing use of pleasure cars, "for economy's sake." Take into account also the effect of rising costs and less efficient labor. It is then easily conceivable that earnings will fall back to, or even below the above average.

Viewing the two last years' results as abnormal, it may be regarded as quite probable that earnings on regular business will shrink at least 50 per cent. within the next two years. A 50 per cent. shrinkage would bring them down to about the 1915-1916 figures, which—and this is significant—were *practically double each of the two previous years.* On such a basis, making no allowance for war taxes, earnings would equal $17, instead of $34 a share.

True, General Motors is getting munitions orders and its earnings on regular business are so far holding up remarkably. Also the financial position of the company is reported as stronger than ever, with cash in banks and sight drafts of above $22,000,000. But don't forget that excess profits taxation will cut a wide swath in the company's earnings right away.

War taxes cannot be computed accurately, because the company does not yet know just what it may be permitted to call "invested capital." A conservative estimate, however, indicates a minimum tax on the basis of this year's estimated earnings, of $10,000,000 or $12 a share.

This will weaken the company's cash position.

With all these factors against it, it is obvious that dividends at the present rate of $12 a share cannot be long continued. A reduction to $6 would not be surprising.

General Motors' figures of asset value and comparative market prices are not altogether reassuring. Exact figures on present book value are not available, but, taking the net tangible assets—$60,200,000, as of July 31, 1916, and adding surplus earnings after dividends for the following fifteen months—$27,000,000, it becomes apparent that the company ought to have shown, as of November 1, last, something like $87,000,000 in net tangible assets. Deduction of $20,000,000 par value preferred stock would bring this down to $67,000,000, or $81 a share as the book value of the 826,000 shares of common. Finally it may be pointed out that General Motors present common capitalization, on the basis of the present quotation, $90 a share, has a total market value of close to $75,000,000, compared with $13,500,000 for the old stock taken at its 1915 low price of 82. The present shares are really selling at the equivalent of about 450 for the old. Therefore, the price of the stock shows a small shrinkage from its record high level, 850, compared with stocks like Studebaker, Maxwell or Willys.

The preferred stock of General Motors has net assets of about $435 (estimated) back of it. It has shown for seven years average annual earnings of about $85 a share. Current earnings are at the rate of $150 a share. Selling at 75 to yield 8 per cent., it looks high *only* in comparison with some other preferred motor shares. Its intrinsic worth cannot be questioned.

Studebaker's Weakness

Studebaker's weakness lies in its lack of cash and its heavy burden of floating debt.

This condition has been relieved, of course, by the reduction in the dividend, but it is still somewhat doubtful as to whether Studebaker can "pull through" and maintain the present 4 per cent. rate.

A balance sheet of the company drawn up on June 30 showed that bank loans had een expanded to $13,200,000 from $4,000,000 on December 31, 1916. In the same period the cash of the company had shrunk to $2,786,000 as compared with $3,196,000. Unlike the Willys-Overland Co., Studebaker did not provide for financing itself through a period of stress. Earnings continued large enough to cover dividend requirements by a good margin, but the company found that it was having to expend an enormously increased amount for labor, materials and supplies of all kinds. On June 30 it had the enormous total of $25,000,000 invested in "inventories." This heavy inventory account proved its undoing, because when the United States got into the war, sales of cars were suddenly curtailed and orders were cancelled right and left. The only thing for the company to do was to reduce dividends, because it found that its bank loans had been expanded to a dangerous limit.

Large Floating Debt

Since June 30, bank loans have been materially reduced. Nevertheless the Studebaker Co. now has a floating debt estimated at approximately $10,000,000. It does not look as if it was conservative to continue dividends at all under these circumstances. The interests of stockholders would be better conserved if dividend payments were suspended altogether and the money applied to the strengthening of the company's financial position. It is stated that Studebaker is doing a large business still, but it must be remembered that this business is being done at a greatly decreased margin of profit. With the cost of materials and labor at excessively high figures, with the prospect that if the war continues the demand for automobiles will steadily shrink as a result of war economies, and with the prospect that excess profits taxation and other Government war levies will curtail the amount of profit available for dividends, etc., etc., Studebaker's outlook cannot be regarded as bright.

It has been pointed out that the Studebaker car did not give as much satisfaction to users last year as they had a right to expect and that consequently it has lost something in popularity. We are now informed that the company has made some radical improvements and that the car now being turned out is up to former standards.

This situation takes on added significance when it is recalled that the Studebaker Co. places a very high valuation on its trade name, etc., namely $19,807,277. This intangible asset is equal to $66 a share of common stock. Of course, a large part of it represents legitimate capitalization, owing to the abundant earning power of the corporation, but "good will" must be constantly nourished in order that it may remain healthy.

Who Sold at the Top?

There is small comfort for the holder of Studebaker who bought the stock above par. It sold as high as 195 in 1915 and 167 in 1916. It is not hard to guess who were the sellers of the stock at those dizzy heights, when it is recalled that its astounding market movements at the time were accompanied by all sorts of optimistic statements, interviews and whatnot emanating from official, semi-official and other responsible quarters. Reassurances that Studebaker's dividend would be maintained were insistently given out until a short time before the dividend was cut. Of course, the holder of Studebaker stock, in his own interests, should not allow himself to be prejudiced now by what has occurred in the past from the market standpoint. But the stockholder of Studebaker stock, in his own inpressed too much by the fact that the stock is now paying dividends of 4 per cent. per annum or by assertions that the company will be able, because of expected profits from war order business, to continue to pay off its floating debt and keep up dividends. The writer is frankly not impressed with the position of this stock and believes that holders of it should carefully consider an exchange into something else. As for the preferred, it is hard to see where it measures up to Willys or General Motors preferred.

Saxon the "Mushroom"

Springing up and flourishing like a

mushroom on the top of the prosperity wave for motor industry, Saxon Motors quickly wilted. In July, 1916, a dividend bouquet, in the shape of a quarterly disbursement of 1¾ per cent., bloomed forth. Just a year later the dividend was passed. The high price of the stock on the New York Curb was 87 in June, 1916. Its present quotation, about the lowest on record, is around 5¼.

The Saxon Motor Car Corporation was incorporated on November 23, 1915, under the laws of New York, with a perpetual charter, to acquire all of the capital stock, assets, property and business of the Saxon Motor Car Co., which was incorporated under the laws of Delaware on October 26, 1915, having succeeded the Saxon Motor Co., which was organized under the laws of Michigan on or about November 20, 1913.

The company controls by lease for five years from January 1, 1915, the building and grounds upon which the factory is located, consisting of two acres of land in Detroit, Mich.

During the fiscal year ended June 30, 1916, the company produced 25,499 cars. The following tabulation shows the shipments made in each month of the current calendar year, as compared with the same month in the preceding year:

	1917	1916
January	2,886	1,556
February	*971	2,231
March	3,261	2,604
April	3,199	3,405
May	2,294	**
June	508	3,122
July	792	**
August	1,233	**
September	1,601	**
October	1,815	**
November	....	**
December	....	3,016

*Decrease caused by fire at plant.
**Figures not reported.

Saxon is an assembling proposition. The company's difficulties were originally financial, but added to those are very great commercial difficulties at present. An assembling company is obviously not in a position to compete on an equal basis with a company like Ford, a highly efficient organization, manufacturing its car almost from start to finish. And it is with the Ford Co. that Saxon comes into competition, with its low priced car.

The company has arranged for financing by the issue of $600,000 ten-year 6 per cent. notes and also by the obtaining of credits to the amount of $750,000. The creditors are to be paid off in installments of 10 per cent. monthly, it being expected that they will be paid up by August 1, 1918.

With earnings generously reduced, it is not expected that the company will have to meet any large outlays for excess profits taxes. However, the company is tied up in such a way that it must struggle along under a pretty sizable handicap, and there is no encouragement for the hope that dividends will be resumed for a long time to come.

An unfavorable commentary, especially in view of the conditions, is the fact that Saxon carries good will, models, patents, etc., at $4,557,229, or $75 a share. Its total assets as of June 30, 1916 (the latest available figures), were $7,780,665, and the net tangible assets applicable to the capital stock amounted to $2,298,071, or $38 a share. Of course, the book value of the stock has been greatly reduced since the balance sheet referred to was issued.

Maxwell's Rehabilitating Process

The Maxwell Motor Co., not to be behind the procession, inaugurated dividends on its two junior stock issues in 1916. It made the mistake, of course, of declaring too high a rate on the common stock and of not paying enough attention to the matter of fortifying itself against less prosperous times.

But to the credit of the company it may be said that although it has taken action late, it has not been afraid to take drastic action by suspending dividends altogether on both the common and 2nd preferred stocks. By so doing it has heeded the danger signal and will probably be able to pull through a continued period of stress without having to pass dividends on the first preferred stock which is a cumulative issue. The Maxwell Co. is not in as strong a financial position as Willys-Overland, or for that matter, General Motors, but the company has an excellent trade name and its product is very highly regarded. Its management is aggressive and able, and

while the company may suffer for sometime yet from the baleful influence of mistakes made in the past, it should be able to pull through all right in the long run.

Hence there is considerable speculative attractiveness about the stocks, particularly the first preferred issue, which is selling around 55, to yield over 12½ per cent.

White Motors—Trucks

As one of the leading truck manufacturers, White has received and stands to receive large contracts from the United States Government for military purposes. The company's regular business is satisfactory. Of course, it must be borne in mind that White will not make the large profits from foreign orders this year which it made in 1915 and 1916. However, the unfavorable aspects of the situation from the standpoint of earnings are not unfavorable enough to cause apprehension as to the maintenance of the present dividend of $4 a share for the time being, although it should be borne in mind that Government taxation of excess profits is likely to bear heavily upon the company and to reduce its cash available for dividend payments. However, the present low selling price of the stock already largely discounts a dividend reduction. White is a very ably and conservatively managed company and there is no doubt that over a period of years it will prosper very greatly because trucks are in increasing demand for commercial purposes. The long range future of the stock is therefore promising.

Some of the Other Motors

Space forbids our giving any extended comment on the other motor stocks. Chandler Co. is deserving of mention. The company appears to be in a very favorable condition and the stock looks low at around 65. The regular dividend rate is 8 per cent. In 1916, 1½ per cent. extra was paid, and so far this year 4 per cent in extras has been paid. An extra dividend of 1 per cent. was declared only recently. Earnings of the company are said to be running very much in excess of dividend requirements.

Peerless Truck & Motors has been one of the greatest disappointments among the motor stocks, but at the current price of around 14 this issue seems to have pretty fully discounted all the unfavorable factors in the situation. The company is now employed profitably on Government business consisting of truck orders. Owing to peculiar technical market conditions there is not much encouragement for the expectation of any considerable upward movement in the stock in the near future, but eventually it should get out of the rut and show substantial appreciation over the present market price. The par value of Peerless is $50 a share. No dividends have been paid, but the company has been showing very satisfactory earnings.

Summary

To summarize we will say (and we are speaking more generally to the holders of the motor stocks above discussed, who bought them at very much higher prices) to the holder of:

Willys-Overland preferred—Keep it.

Willys-Overland common—Stick to it and buy more on weak spots, to average.

General Motors preferred—Hold it and if you desire to increase your chances of making up losses, buy some Willys-Overland preferred.

General Motors common—Sell it unless you are willing to assume considerable speculative risk and to accept a reduction in your income. A plan which might appeal to some holders would be to sell part and reinvest the proceeds in Chandler, but neither stock should be bought or held unless a certain amount of speculative risk can be assumed.

Studebaker preferred—Exchange it for Willys-Overland preferred.

Studebaker common—Exchange it for White Motors.

Saxon Motors—Hold only if you are willing to wait an indefinite time, otherwise sell and put the proceeds into Willys-Overland common, buying the latter on weak spots only.

Maxwell Motors first preferred—Hold if you can assume a certain amount of speculative risk.

Maxwell Motors second preferred — Switch half into Willys-Overland common.

Maxwell Motors common—Hold part for speculation but sell part and put proceeds into Willys-Overland, so that you will receive some income.

Right and Wrong Methods of Investment and Speculation

Part 1 Continued: Mistakes in Conception—When Investors Should Buy and Sell

By RICHARD D. WYCKOFF

HAVING decided to study and learn the business of investment and speculation, let us begin by examining the forces that govern the great swings in prices, the extremes of which are measured on the one hand by panics, crises and depressions, and on the other, by great bull markets characterized by speculative and business inflation.

It is a fact, though very few people recognize it, that each great or small movement in securities may be identified and described, but the principal movements, known as the long swings from bottom to top, and from top to bottom again, and which occupy periods of two or three years to complete a cycle, are the ones which should have our first attention and study.

This year of 1917 is an excellent one to begin our investigation, because within the past three years, prices of securities have traveled the road from panic to boom, and back to the low levels again. These years of market history being fresh in every one's mind, it is very much easier for us to grasp the significance of the principal occurrences, and in future campaigns turn them into the greatest possible profit in proportion to capital employed.

The War Markets

The action of the market during the months of June and July, 1914, formed a very interesting study. Prices were sagging, but why very few knew. Events during the latter part of July led rapidly into a situation where panic ensued, and the official low levels of that year were made the day before the Stock Exchange closed. In the subsequent months there was no official market, but prices declined considerably further.

From the time the Stock Exchange opened until November, 1916, a bull market prevailed, interrupted by one main reaction (from October, 1915, to April, 1916). In November, 1916, prices started on a downward swing, and during the recent weeks (November, 1917,) the combined average price of fifty railroad and industrial stocks has returned to the low levels of early 1915. In less than three years the fifty stock averages have traveled roughly from a price of about 60 to above 101 and back to around 60 again.

This represents a wonderful period for money making, because the action of the market was so swift from bottom to top, then back to the low point again. The graph herewith shows how much greater distance was covered during the last three years than in the years 1912, 1913 and 1914. This meant to the man who knew how, opportunities vastly greater than those offered during the preceding years.

What have *you* to show for the investments or the ventures you made during this great period?

Thousands of people made hundreds of thousands and millions of dollars during the boom, but now, at the bottom of the down swing so far recorded, how much have they in cash or security values?

The profits you had and have since lost do you no good, but this should teach you a lesson which you should never forget. We learn our best lessons through our mistakes, and right methods are only evolved through the elimination of faulty methods.

One of the reasons why I am writing this series now, is because these examples of lost opportunities and grievous errors are right before us—are vivid in the minds of most of us, and that is why I believe the minds of those who have not profited will afford a fertile field for the cultivation of scientific trading and investing. *I should like to see every reader of* THE MAGAZINE OF WALL STREET *become one of the growing class composed of those who know how to invest and operate scientifically.*

A new member of our staff remarked: "I

have handled the correspondence of a great many people who dealt in the market, but never have I encountered such an intelligent class of readers as is represented by the subscribers to THE MAGAZINE OF WALL STREET." That shows that we have traveled some distance in our journey toward the better education of the public, but there is still a vast work to be done.

One of the best illustrations we can use to describe the various swings in prices is found in the waves, the swells, and the tides of the ocean. As everyone knows, waves are depressions made by the winds. They may be compared to the day to day or week to week fluctuations in the stock market. The swells are the larger movements which run at times contrary to and at other times in the same direction as the winds. These may be compared to the movements in securities which run two or three months, and which may be either with or against both the winds and the tides. The great long swings in prices, such as have taken place over the preceding three years may well be compared to the tides, because they are caused and more or less governed by world events, just as the tides are controlled by the moon.

The Main Swings

In our study of the greater and the lesser forces which influence the prices of stocks and bonds, we must first take up and acquire a thorough knowledge of what are known as the main swings. Then we shall better understand the smaller movements. It is therefore necessary that everyone who intends to make a serious study of this subject and acquire that thorough knowledge which, as we have said, will lead to income, profit and success and have an important effect upon his financial condition during the latter part of his life, should first read through and then study the book entitled "Financial Crises and Periods of Industrial and Commercial Depression," by Theodore E. Burton. This book will be supplied by our Book Department at $1.85, postpaid. It is the best work on the subject, because it goes thoroughly into the causes underlying panics, crises and depressions, the periods at which they occur, their duration, the events preceding and following them, by which they may be recognized, and a brief account of such periods through which the United States has passed during the last century. The volume also contains important statistics, opinions of other authorities, and a bibliography which will prove exceptionally valuable to those who are willing to study even more deeply.

We should absorb Mr. Burton's work in order to learn the "seasons" of the security market, just as the farmer learns the right season for plowing, sowing and reaping his various crops. And the more we study, the more striking becomes the resemblance.

If the farmer knew no more about crop seasons than the average investor and trader knows about the seasons for buying and selling, the world would starve.

There is the Spring of rising prices, the Summer of boom, the Fall of declining markets, and the Winter of depression. In the panic or the depression, the foundation for the boom is laid, just as surely as the wildly excited days of a bull market bear the seeds of the next panic.

From the low point of the panic, prices always have an upward trend, until the apex of the next bull market is reached, and vice versa. This upward trend is composed of many intermediate movements, some upward and some downward, but as a rule each new buying wave overtops the one preceding.

If one's judgment were infallible he would wait until the exact turning point, the very bottom, was reached, then spend his last dollar in loading up. With only semi-infallible judgment he might buy near the bottom or at the low point of some of the earlier reactions in a bull market. Then he could ride on the rising tide and be sure of profits. This sort of judgment is now possessed by a comparatively few. If you are not one of these, we aim to show how you can cultivate such judgment.

The First Step

First get rid of the delusion that it is always time to buy.

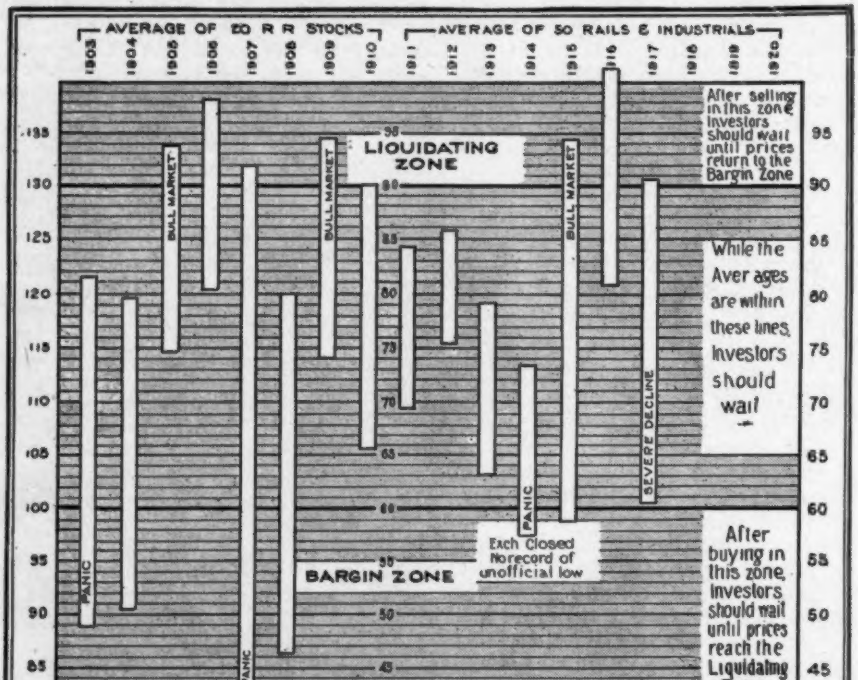
Starting with the lowest point of a panic or depression as the ideal buying time, the long side becomes less and less profitable to follow as the market approaches the final top. Then the reverse is true, that is, the greatest opportunity to sell out your long holdings or go short is at the pinnacle. And the longer you postpone liquidation the greater sacrifice you will finally make

The great thing is to get your initial bearings and then never lose sight of them. The way to do this is to recognize that the low point of a market movement is the beginning of an uptrend that will continue until it culminates at the top of a boom; then see to it that all your commitments are made in harmony with that uptrend, and act so as to extract the last possible dollar out of the rise.

Bear in mind that panics are rarely followed by other panics, but that every panic is invariably followed by a bull market sooner or later. Also that every big bull market up to now has been followed by a period of low prices.

By recognizing the trend and acting in accordance with it you are working in harmony with economic laws, and you will benefit, just as do the farmers who sow and reap at the proper season. *To buy in an uptrend is to double the probability of profit,* whereas *to buy in a downtrend doubles the chances of loss.*

Study the accompanying graphic of the average prices of fifty stocks. See how from the high point of 1912 prices declined in 1913, afterward rallying sluggishly, only to crash down in the war panic of 1914. Then see how they climbed to new heights in 1915, reacted in 1916, and finally reached undreamed of levels in November of that year.



Now if you were one of those who bought at the high point of 1912 and you held on until late in 1915, you finally had a chance to get out even, but your money was tied up all these three years. You lost the greatest opportunity that has ever occurred in the stockmarket because you didn't know, or at least didn't act upon some very simple rules that will be explained in this series.

One of these is shown by what we term a "Zone Graph," which contains past fluc-

tuations condensed into a form that may readily be copied on the back of one of your business cards and carried with you for instant reference on any day of the year.

As the most violent fluctuations during the first interval were made by the rails, we base our graph on the average prices of twenty railroad stocks from the low point of 1903 to 1912, then bring them up to date by using the average price of fifty stocks, composed of half rails and half industrials. These are tabulated in each issue of THE MAGAZINE OF WALL STREET.

The graph is given in more detail on page 292 of the November 24, 1917, issue of the MAGAZINE, but for convenience we have condensed it. This graph is primarily intended for the use of investors and long-pull operators, and its purpose is to show whether the market is headed toward panic or toward bull market levels. In other words, it shows the general direction or trend of the long swings of the market. It is not a "patent method" of investing or trading, for nothing we have ever discovered will take the place of brains.

For example, the market is now showing a downward trend, but no one can predict the moment when the exact turn will come. The best anyone can do is say he believes it has turned or is about to turn, or will turn before long. It does not follow that because there were panics in 1903, 1907 and 1914, the present decline will culminate in a panic.

A panic is a state of the public mind. It grows out of a sudden and unexpected event, or a series of them, producing increasing fear on the part of the public. While in this mental condition people sacrifice their holdings at whatever prices they can get. They do not fear what *has* happened so much as what *might* happen.

The decline has now run for a year, but beyond the U-boat spasm in February there has been no panic, nor is there any assurance that there will be. We might easily have a stock market depression that would force prices down to panic levels, without any signs of panic.

The investor and the long-pull operator who patiently waits until his graph indicates that prices are in the bargain zone and who then buys and holds until the subsequent bull market drives stocks up into the zone where he should and does liquidate, is acting intelligently and scientifically and he will realize a large profit.

But it is not as easy as it looks. It requires great patience to operate in this way, and the necessity for this qualification may best be emphasized by repeating Jay Gould's famous maxim: "The three requisites to successful operations in the stock market are, first, patience; second, more patience; third, still more patience."

One must also cultivate other qualities, such as self-control, in resisting the persuasive suggestions of well meaning friends, the seductive literature found in certain market letters and the hundred other pitfalls for those who do not know just what they should do and when.

One must be master of himself.

He should not be persuaded or dissuaded, but should learn to cultivate and depend upon his own judgment. Until he can do this he had best do nothing.

It is more difficult to learn patience, judgment and self-control than to learn the other rules of the business. And after you have the rules down pat and have learned to exercise these qualities, you still have a long way to go in order to acquire what is most valuable of all—experience.

(*To be continued.*)

The Railroads—Who Owns Them?—Who Will Operate Them?

Railroad Officials Now Clerks—Interests of the Railroad Investor at Stake—A Suggestion for Raising Capital

By JOHN MUIR,
President Railway Investors' League

IN a country of this magnitude—roughly 4,000 miles square—having in three-quarters of a century built up a rail transportation system of 250,000 miles, with a congestion of traffic now which denotes the height of prosperity, why is it that this immense system is in such a plight today that, to save it from bankruptcy, there is seriously considered Governmental control and ownership?

The inspiration of such a question is an offense to American enterprise and intelligence. It is a reflection upon American uprightness; it is a challenge to American honesty.

A Long Look Ahead

Over 60 years ago a few courageous, far sighted men looked across the Western prairies and conceived the substitution of a rail path for the pony express to the Pacific Ocean. No combination of men could then accomplish it. Government help was asked and given. Land grants and financial aid built up a system which gridironed the West and established a network of transportation which, in half a century, more than doubled our population. Roads were then built, not to serve a waiting people, but, far in advance, to take care of coming millions—

. . . . of nations yet to be
Where soon shall roll a human sea.

Little wonder that those Western roads could not then, even with Government aid, earn their fixed charges. The country was too sparsely settled, its immense resources were wholly undeveloped. Volume of tonnage did not exist. What tonnage there was, was sought for with an eagerness and necessity which brought about rivalry and payment of unjust rebates at competitive points, excessive rates at non-competing points.

These evils became so flagrant and oppressive that the Interstate Commerce Commission was established in 1887. For many years it was an inactive body. The evils, temporarily suspended, broke out afresh and with such pernicious effect that a stringent application of the law was vigorously enforced. The rate making power was taken from trained railroad executives and placed with high class jurists who rarely came in contact with shippers. Rates were then made on the basis of "a reasonable charge" without regard to other conditions. This consideration alone was as unreasonable as its preceding antithesis of "charging all the traffic would bear."

Hence the situation of today. Competent railroad traffic men whose salaries are expressed in five figures have been relegated to high class clerkships and bow to a rate-making power expressed in terms of precise logic.

Clogging Commerce

Rates which were considered wholly inadequate four years ago are still the measure of charge, whilst other businesses have advanced their prices 30%, 40% and 50%. Yet the railroads have had to stand this advance in their costs, and at the same time are wearing out rolling stock and equipment which they are working at full speed in order to supply the war demands.

Ten years ago the railroads, with thoughtful foresight of what was needed,

made their first plea to the Interstate Commerce Commission for advanced rates. Again and again was this request repeated and each time a refusal or a small allowance was granted. The inevitable result has brought the railroads to their present depleted, unprepared condition, unable to cope with or take care of a traffic whose accelerated movement is a momentous factor in our war campaign, whose sluggish movement clogs established commerce.

And now the suggestion is made to pool all railroad traffic east of the Mississippi and north of the Ohio and Potomac rivers. Shades of the original Interstate Commerce Commission look down upon us! Judge Cooley would have gone crazy over such a proposition. If the former deadly sin of pooling is to be restored, why not permit the railroad experts to fix rates, not upon logic but upon present business conditions?

A Blow at Thrift

Who owns these railroads? Not the few owners of twenty and forty years ago. The great number of owners now total over 600,000 against 100,000 not very many years ago. The small investors, the thrifty people of this great country supposed to be endowed with common sense and good judgment, cast about for safety and bethought themselves of the great avenues of transportation.

"If our country is all right, our railroads must be," they said. To the railroad securities they turned, and in the last sixteen years the number of stockholders in six trunk line systems has increased from 40,000 to 250,000.

It is these people's interests which are now at stake. It is they who ask for fair treatment for their property, for the railroads. They ask for higher rates, rates commensurate with their needs, rates which, if not prevented by law, would as surely have been received as the higher scale obtained by the multitude of other businesses which advanced their prices and thrive upon them today.

But beyond the rate question looms the larger one of capital need for rails, locomotives, cars and equipment. The rate at which roads are now being worked is rapidly converting a well equipped machine into one worn out. Repair, renewal and replenishment are a crying present necessity.

The handling and treatment of the entire railroad question has brought up the ominous suggestion of Government control and operation.

Heaven forbid it! It would be a calamity. We are a democracy. This is a Government for the people, by the people. The notion of a Government owning and operating the railroads is a suggestion to adopt the effete methods of European thraldom. To rear up in this free country a vast political machine officered and ranked by voters dependent upon their positions, as much or more through influence as ability, would disorganize the best transportation system in the world and would be a retrograde step for this nation.

Yet the railroads must have capital and a great deal of it. Whence is this capital to come?

A Government-Backed Appeal

The Liberty Loan introduced a new element into American finance; discovered an immense new reservoir of money. To the second loan nearly 10,000,000 people subscribed. Ninety-nine per cent. subscribed in sums ranging from $50 to $50,000 and their subscriptions amounted to $2,500,000,000. They were induced to buy, moved by the desire to help their country.

If vast sums under this plan can be raised by the Government to help the country, cannot vast sums be raised for the railroads to properly equip them, under car trust or other plan? Would not a proper presentation of the matter to the hundreds of thousands of small railroad investors bring a ready response to help the roads in which they are already interested?

If such an appeal were made to these small investors by the railroads direct, I would fear its success. Already the small investor in railroads is in doubt about his railroad stocks and might say, "Why throw good money after bad?" But if the Government, for the roads, would make such an appeal and collect in this easy manner, a manner which now would admirably suit the slow filling of railroad needs, I believe the response would be full, adequate and hearty.

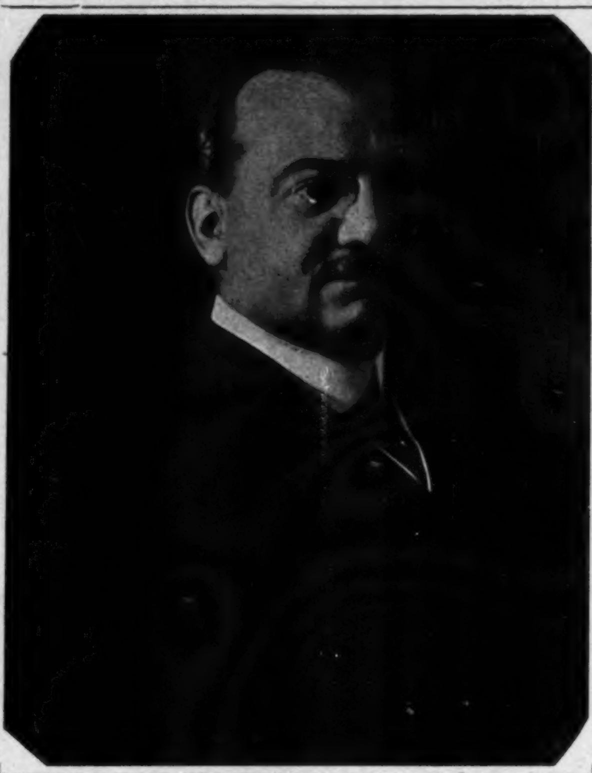
Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before the earnings' columns indicates a deficit for the year in dollars per share.

INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.

	Dollars Earned Per Share.						Present	Recent	Yield	
	1912	1913	1914	1915	1916	1917	Div. Rate	Price	on Price	
Companies Which Have Reported in 1917.										
Amer. Agricultural Chem. com.	7.34	5.23	7.68	10.97	20.57	21.11	6	82	7.31	Outlook encouraging, a semi-peace stock.
Amer. Beet Sugar com.......	8.46	3.87	1.01	7.50	14.30	30.55	8	75	10.66	Recent Government price insures reasonable profit.
Amer. Car & Foundry com....	2.46	4.09	5.52	0.76	2.38	27.37	4	66	6.06	Large Gov't contracts for box and tank cars. Extra div.
Amer. Hide & Leather pfd....	3.22	3.66	0.83	7.38	12.64	13.82	5	58	8.62	Latest earnings favorable.
Amer. Loco. com............	0.47	17.74	1.30	13.00	36.08	21.80	5	54½	9.17	Profits affected by high operating costs. Prospective heavy European orders after war.
Burns Bros. com............	.....	4.41	8.40	12.11	10.03	21.27	6	115½	5.19	Business continues very profitable.
Col. Fuel & Iron com.........	4.79	4.58	—3.11	—1.44	5.97	11.15	3	36	8.33	
Inter. Agr. Chem. pfd........	11.22	—1.24	0.65	—0.47	9.80	9.31	0	38	0.00	Earnings excellent.
Inter. Nickel com...........	23.54	16.66	11.20	13.32	27.34	31.13	4	27	14.81	Canadian and U. S. taxation hurtful.
Maxwell Motor com..........	.....	.....	0.30	6.55	30.18	30.72	0	24½	0.00	Competition and war economies hurt.
Nat. Biscuit com............	10.00	9.61	11.75	9.52	8.19	9.72	7	95	7.36	Peace should prove advantageous.
Pullman Co.	8.69	9.29	9.04	8.79	10.32	11.36	8	126	6.34	Increased expenses reduce margin over dividend.
Va.-Carolina Chem. com.....	3.28	0.53	3.39	7.55	10.39	10.92	3	34	8.82	A semi-peace stock.
Westinghouse Elec. com......	3.08	4.10	5.36	2.31	10.21	12.56	3½	39	8.97	May need to do new financing.
Companies Which Have Not Reported in 1917.										
Allis Chalmers pfd..........	.....	4.77	—0.15	6.80	19.97	.....	7	73	9.58	Plants running at capacity. Expects to clean up back dividend.
Amer. Can pfd..............	9.66	10.61	7.07	12.19	19.31	.....	7	96	7.29	Government business helps. Back dividends due.
Amer. Cotton Oil com........	6.49	3.38	1.99	7.05	6.99	.....	4	25½	15.68	High prices for cotton seed detrimental.
Amer. Linseed pfd...........	—2.85	2.96	1.83	6.02	8.82	.....	7	72	9.72	Earnings believed to be very large.
Amer. Smelt. & Ref. com.....	11.47	7.47	6.51	16.80	31.73	.....	6	78	6.41	Fortified with large cash reserves.
Amer. Steel Foundries.......	4.53	6.01	—1.35	—1.20	19.89	.....	7	58	12.06	Recent dividend increase warranted by earnings.
Amer. Sugar Ref. com.......	5.23	—0.25	2.90	4.99	18.46	.....	7	98	7.14	Government price restrictions.
Amer. Tobacco com..........	30.42	28.12	21.04	20.05	22.73	.....	20	172	11.62	Margin over dividend now larger than 1916.
Amer. Woolen com..........	2.01	—9.89	—0.06	6.40	15.32	.....	5	44	11.36	War orders large.
Amer. Zinc com............	8.10	—4.65	1.53	54.92	34.88	.....	0	14	0.00	Earnings affected by decline in spelter.
Anaconda Copper	3.65	2.61	1.88	7.16	24.35	.....	8	58½	13.67	Expected to continue dividend despite taxes.
Baldwin Loco. com..........	11.49	13.09	—5.25	7.14	22.91	.....	0	56¼	0.00	Should benefit by post-bellum demand for locomotives.
Barrett & Co. com..........	11.11	15.61	10.31	21.19	32.84	.....	7	91½	7.65	Strongly intrenched against foreign competition.

Bethlehem Steel com.........	6.86	27.45	32.59	112.49	286.25	.....	10	84	11.90	Excess profits tax will be heavy.
Butte & Superior.............	.....	3.47	5.21	33.37	31.79	.....	2⅜	17½	14.28	Further dividends enjoined pending decision in appeal of Minerals Separation suit.
Cal. Petroleum pfd...........	4.25	11.74	11.54	7.80	8.44	.....	4	40	10.00	Position not encouraging.
Central Leather com..........	8.58	5.18	6.41	10.82	33.14	.....	5	67	7.46	Gov't business. Will pay heavy excess tax. Extra div.
Chino Copper	2.80	3.51	3.44	7.67	14.40	.....	5	42	11.90	Extra dividends not expected to continue.
Continental Can. com.........	.....	12.10	4.09	12.10	22.38	.....	5	96	5.20	Government business.
Corn Prod. pfd...............	6.89	7.66	7.73	10.62	20.39	.....	7	90¾	7.71	Earnings estimated at rate of $25.
Crucible Steel com...........	6.81	12.84	—2.94	5.39	45.89	.....	0	56	0.00	Excess profits tax will hurt.
Cuba Cane Sugar com.........	.....	.....	.....	.....	17.36	.....	0	29½	0.00	Earnings disappointing.
Distillers' Securities	1.62	1.17	2.28	4.64	10.30	.....	2	35¾	5.59	Believed will benefit largely by high prices for spirits.
General Chem. com..........	21.72	19.19	18.73	44.27	86.76	.....	8	175	4.57	War earnings.
General Electric	16.19	12.88	11.12	11.57	18.31	.....	8	126¾	6.31	Burdensome inventories.
Goodrich (B. F.) com.........	3.34	0.83	5.62	17.17	12.76	.....	4	37	10.81	Encountering competition. Operating costs heavy.
Greene Cananea Cop.........	4.31	2.33	1.97	1.04	7.03	.....	8	38	21.05	Fear effect of excess profits tax.
Great Northern Ore..........	1.75	0.71	0.54	0.70	1.39	.....	0	27½	0.00	No regular dividend rate—last payment $1.
Gulf States Steel com.........	.....	.....	.....	10.17	30.25	.....	10	90	11.11	Will suffer from tax and price fixing.
Inter. Har. N. J. com........	16.18	15.54	14.41	17.94	27.25	.....	5	109	4.60	A peace stock.
Inter. Mer. Mar. pfd.........	0.25	4.44	—0.58	26.26	42.10	.....	6	96	6.25	Plan to pay 88% dividend accruals under consideration.
Inter. Paper pfd.............	5.35	4.44	5.08	5.44	22.85	.....	6	60	10.00	Earnings disappointing.
Mex. Petroleum com.........	5.88	11.62	4.68	5.12	10.35	.....	6	81	7.40	Further development awaits quiet in Mexico.
Miami Copper	2.81	1.75	1.65	4.56	14.76	.....	6	28¾	20.86	Dividends jeopardized by excess profits tax.
National Enam. & Stamp. com.	—1.54	1.05	—0.32	2.02	11.67	.....	4	38½	10.38	Increased dividends expected.
National Lead com............	3.81	3.64	3.73	4.86	6.16	.....	4	44	9.09	Lower lead prices should benefit.
Nevada Consolidated Cop.....	2.18	1.45	0.74	2.78	7.51	.....	2	17⅝	11.42	Dividends endangered by profits tax.
New York Air Brake..........	5.72	6.55	6.41	13.43	82.15	.....	10	113	8.84	Earnings large. Extra dividends.
Pittsburgh Coal pfd...........	7.48	10.07	5.06	6.11	11.64	.....	5	80	6.25	Coal price regulation.
Pressed Steel Car com.........	0.76	10.56	0.14	3.60	15.00	.....	7	57	12.28	High costs cut down profits.
Railway Steel Spring com....	5.77	1.31	—0.42	3.09	20.49	.....	5	44	11.36	Repair business heavy. Earnings large.
Ray Cons. Copper............	1.33	1.85	1.65	3.08	7.65	.....	2	22¾	8.79	Profits tax may endanger dividend.
Sears Roebuck com..........	19.34	21.17	21.30	17.57	26.55	.....	8	141½	5.65	Record gross business continues, but margin of profit reduced.
Sloss-Sheffield com...........	0.84	2.09	0.21	0.53	14.44	.....	0	39	0.00	New management forcing retrenchment.
Studebaker Corp. com........	4.95	3.12	12.79	27.46	26.14	.....	4	43	9.30	Large floating debt. Competition hurtful.
Tobacco Products com.........	.....	0.30	1.03	2.31	5.44	.....	0	52½	0.00	Declared initial dividend of $1.50 a share.
United Cigar Stores com......	5.75	6.83	7.09	7.69	9.48	.....	8	93	8.69	Record breaking business.
United Fruit	16.39	14.53	6.19	16.12	27.97	.....	8	119	6.72	Government regulating freight rates.
U. S. Cast Iron Pipe pfd.....	5.70	4.52	—4.78	0.60	10.91	.....	5	50	10.00	High prices curtail demand for pipe.
U. S. Ind. Alcohol com.......	5.01	1.94	1.94	12.60	36.14	.....	16	113	14.15	Earnings continue large.
U. S. Rubber com............	6.00	13.21	9.18	10.80	17.75	.....	0	53	0.00	High costs and competition.
U. S. Smelt. & Ref. com......	14.42	10.08	3.21	27.85	40.99	.....	5	47	10.65	Benefits from high silver prices.
U. S. Steel com..............	5.71	11.02	.....	9.96	48.46	.....	5	97⅜	5.13	Paying "extras." Severe inroads into profits from tax'n.
Utah Copper	5.35	5.38	5.34	11.03	24.46	.....	7	79	8.86	Tax will leave slim margin over dividends.
Willys Overland com.........	.....	4.63	6.10	11.36	5.75	.....	3	19½	15.38	Manufacturing aeroplane motors.
Woolworth (F. W.) com.....	8.73	10.82	10.86	13.19	15.57	.....	8	109	7.33	Gross business record breaking.



Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor*.

RAILROADS

Atlantic Coast Line—Balance after preferred dividends of $10,193,361 for year ended June 30, 1917, is $14.86 a share on the common stock, compared with $11.29 the previous year. Earnings statement, calendar year ended Dec. 31, 1916, which has become the fiscal year, showed gross $37,322,085, an increase of $5,385,123; operating expenses and taxes, $25,904,015, an increase of $2,172,681; income from outside sources was $4,566.868, or a gain of $1,183,382. After deductions balance was $9,671,627 applicable to dividends, an increase of $4,243,259 over the previous year.

Baltimore & Ohio—Stockholders who attended meeting Nov. 19 left much encouraged by Pres. Willard. He asserted that the road was in excellent shape. He declared that the company would pay its dividend for 1917, but expressed some doubt if this could be maintained unless the Government comes to its aid in the way of the freight increase asked.

Boston & Maine—It is stated that management during 1917 has accomplished excellent results in increased operating efficiency. Increases already allowed in the so-called 15% case will amount to $2,400,000 per annum. If the full increase had been granted, it is estimated that on the basis of business now moving revenues would be increased $2,350,000 a year additional.

Canadian Northern—Statement given out by Canadian Government regarding agreement recently arrived at to arbitrate value of 600,000 shares to become property of the Government, confirmed the reports that no greater sum than $10,000,000 can be paid for C. N. R. R. shares. If the value is found to be less, then the less sum will be paid. No arbitrator was named, but the appointment of Sir William Meredith, Chief Justice of Ontario, to represent the Government, was officially confirmed.

Canadian Pacific—Sales of land in October 82,853 acres for $1,456,451 compares with sales of 45,027 acres in October, 1916, which yielded $680,679. For ten months ended October sales 543,116 acres for $9,527,636, compares with sales of 316,796 acres in the previous ten months valued at $4,063,116.

C., M. & St. Paul—Pres. Byram, back from a three weeks' inspection trip, reports business generally is in good condition in the West, with activity in shipbuilding reflected in all other lines. The lumber industry enjoys great prosperity as a result of shipbuilding. Disappointment is shown in the wheat crop of Minnesota, which seems in poor condition. Otherwise conditions all along the line are good. Company has ordered equipment and material for new electric division at around $2,000,000. Equipment includes 17 electric locomotives at an average of $100,000 each and sub-station machinery for the 216-mile Othello-Seattle-Tacoma division.

Chi., Rock Island & Pac.—Results attained in the three quarters of fiscal year to Sept. 30 are indicative of probability of dividends on preferred stocks Jan. 1, 1918. In that period it earned nearly three times the six months' dividend requirements on these issues. Surplus September was $1,129,637, a decrease of $104,504, against September, 1916. For the 9 months surplus was $4,235,924, against $756,866.

Delaware & Hudson—When directors meet in December they will have final figures for the year, showing the company earned 9% dividend requirements, with a surplus substantially larger than that of 1916. In 10 months ended October earned a surplus for dividends of $4,112,000, or 9.67% on the amount outstanding, without allowance for payments received from subsidiaries, whose aggregate might run to an additional 3%. Company's surplus $4,112,000 for the first 10 months of 1917 shows that in the period it earned within $46,000 of full 12 months' surplus in 1916, which included "other income" from subsidiary companies, no proportion of which is in the figure of $4,112,000 for 1917. Coal properties are having a record output in 1917, and while the margin of profit has been cut into by higher wages and higher cost of materials due to the increased tonnage, the coal profits have been at record levels. The prosperity of coal operations is an important factor in fulfillment of dividend requirements.

Erie—Although authorized to issue $15,000,000 6% 20-year refunding and improvement bonds, bankers say company does not contemplate any immediate public financing, but is securing authorization to be prepared should the occasion require later on.

Kansas City Southern—Latest report of earnings are as follows:

	1917.	1916.
October gross.....	$1,177,941	$1,096,441
Net after taxes....	351,187	428,030
Ten mos. gross....	11,079,264	9,211,195
Net after taxes....	3,756,138	3,173,337

N. Y., New Haven & Hartford—The striking feature of operations in 1917 has been large increase in passenger business, which shows relatively greater gains than freight business. The explanation lies in war industrial activity, movement of troops and travel of soldiers, relatives and friends. In September passenger revenues increased $655,000, or 22% against increase in freight revenue, $192,700, less than 6%. For 9 months ended Sept. 30, freight revenue increased less than 5%, while gain in passenger revenue was 11%. Suggestion of a receivership for New Haven is not entertained in some well informed quarters. If the stockholders fail to subscribe funds by taking new preferred one other expedient would be to put up to noteholders a proposition to extend. This has been done before. There is every probability of an increase in rates. New Haven may participate in a special way, and this is likely to come in time to help in making a success of the road's financing.

Great Northern—Announced that company had taken over all property of the Western Union Telegraph Co. along the former's right of way between St. Paul and Seattle. The property is valued at more than $2,000,000. The transfer eliminates old operating contract between the two companies.

N. Y. Central—Interstate Commerce Commission has further suspended until June 9, 1918, order on certain tariffs. Suspended schedules name new rules concerning absorption of connecting lines' switching charges on transit grain at Toledo, O., operation of which was suspended from Aug. 11 until Dec. 9, 1917.

Pennsylvania—Before the Interstate Commerce Commission Pres. Rea testified that the system had not carried out such plan of construction as was essential to expanding businesss, that he did not believe other systems had done so either, and that railroads generally were deficient in facilities. Pennsylvania has, however, been increasing its transportation plant, or has plans in hand for improvement in the near future.

Reading—Made no unusual charge against September earnings of the Philadelphia & Reading. Greater fuel and wage costs account for smaller surplus over fixed charges, which was for the month $136,981, whereas from May to August surplus had ranged from $500,000 to above $825,000 a month. Gross was less in September than in August, which helped to raise operating ratio from 75% to 82%. Betterments are deducted in monthly earnings statement before reporting net revenue, but this was not unduly large. Net and surplus since Jan. 1 have steadily run behind the same months 1916, but owing to reason given September surplus shows unusually large decrease of $1,155,920. While railway surplus has gone behind $4,968,018, coal company surplus is ahead $3,019,763; decrease is $1,948,255. Including equity in earnings of coal company, it has been figured that in 1916 Reading was earning over 20% on common. Net decrease $1,948,255 earned by railway and coal company in nine months is about 2.7% on the common.

Seaboard Air Line—After dividend requirements on preferred stock surplus available for the $37,019,400 common stock at end of calendar year 1916 was $1.17 a share. Balance sheet Dec. 31, 1916, shows surplus $5,795,654, compared with $8,027,446 June 30, 1916. Pres. Harrahan, in reviewing results, called attention that operating expenses were 66.96% of gross, compared with 68.44% for previous year. Including taxes, expenses represented 71.58% of gross, against 73.35% for the preceding year.

Wheeling & Lake Erie—Reports earnings:

	1917.	1916.
October gross......	$1,219,238	$913,509
Net aft. taxes......	349,037	315,654
10 mos. gross......	9,244,956	8,545,050
Net aft. taxes......	2,581,757	2,918,894

Western Pacific—Contracts had been let for 1,900 new freight cars, including 400 50-ton capacity steel underframe gondolas and 1,500 steel underframe box cars. It is expected that work on extension to Jose will be started in December.

Union Pacific—Of $1,439,004 increase in October gross passenger revenue gained 42.2%, or $760,418; freight revenue gain was 9.1%, or $822,503. Maintenance expenses increased 15.6%, or $365,622, due to a 31.1% advance in equipment. Transportation expenses amounted to 27.4%, or $768,362, total operating expense increase amounting to 22.2%, or $1,267,253. Taxes were $1,036,056, an increase of $560,506. Net for October, $5,408,025, were 6.7% less than October, 1916, due to tax increase Ten months' net, $35,734,328, were $1,644,390, 4.4% less than in same period 1916, because of tax increase.

American Can—It has paid off all but 3.71% of the accrued dividends and this small balance should disappear in 1918. The company issued in 1913 $14,000,000 debenture bonds to pay off the big bulk of the accrued pfd. dividends. These bonds have been reduced to less than $12,000,000. It is understood that company has purchased enough of its bonds from surplus cash to anticipate the $500,000 sinking fund for a number of years. In 1916 profits for common were 12.3% (on basis of normal depreciation charge better than 15%). In 1917 before excess profits taxes Can is likely to earn $20 a share.

Am. Linseed—Net of $1,764,429 for the year Sept. 30, an increase of $287,612, after pfd. dividends $502,500, left $1,261,929 surplus, or $7.53 a share on common. Despite decrease in net company enjoyed its most prosperous year. Gross $4,186,043, against $2,847,484 in 1916, is an increase of $1,338,559, or 47%. The directors have put preferred back on a 7% basis. In initial year, 1899, Linseed paid 7% on preferred and thereafter 5¼% in 1900 and 3% in 1917. Net tangible assets to common are $5,616,289, $33 a share, as against $4,000,922, $24, Sept., 1916. Cash is $4,964,393, increase of $2,285,828 over 1916. Inventory is $2,544,537, against $4,332,401 in 1916, decrease of $1,787,864.

American Locomotive—Operating earnings for half year Dec. 31, 1917, will probably be $5,000,000. Interest, preferred dividends, war taxation, $1,500,000, will reduce this to $2,500,000, or $10 a share on junior stock. These estimates are preliminary. Full capacity production over the next half year gross output is expected to insure highest rate ever recorded. Estimated $60,000,000 for half year. These figures take no account of the sale of machinery, which will add materially to Locomotive's profits in the current half year. Out of some $3,700,000 written off in the previous year for machinery costs, the company has already sold over $2,000,000 and expects to sell the balance at the original cost price. This will add some $14 a share to earnings. Business on hand is problematical, as orders to reserve space for possibly $30,000,000 business have been received. Excluding these, orders approximate $100,000,000.

Am. Tobacco—Sales for ten months ended Oct. 31 were larger than entire year 1916. Business amounted to $71,000,000. Sales for 12 months 1916 were $70,009,000.

Am. Woolen—As result of further Government business, orders on books are $82,000,000 unfilled business. Company is sold ahead well into spring of 1918. Woolen will handle gross in 1917 in excess of $100,000,000, and in view of war demands chances favor an even greater turnover. Uncle Sam will not be caught short with respect to clothing supplies.

At., Gulf & West Indies—Stated that as long as profits run $40 a share for common above taxes and cash continues to accumulate the question of extra dividend would be far from dead. Directors have discussed the matter and were not friendly to action at time of November meeting. Since then certain stockholders, who feel entitled to more than $10 a share, have spoken frankly. General situation is now less favorable to extra dividend action than at time of November meeting. The story that negotiations are on for purchase of control and certain interests are buying stock is denied. Control rests in Board of Directors. If company is ever sold it can only be with consent of majority stockholders.

Baldwin—Pres. Johnson stated recently: "During 1916, 1,960 locomotives were made. Considerable portion of the force, from 12,000 to 18,500 men, was diverted to shell manufacturing. French contract was completed in November. During 1917 force was increased to 20,000 men. Locomotive production was increased and for ten months 2,254 were shipped. Increased cost of materials and labor demand a large increase in working capital. There has been no alternative but to provide this by borrowing. Directors have wisely decided it inexpedient to increase loans to provide means for dividends on the common."

Crucible—Annual war taxes are estimated at $7,000,000 a year. In year ended Aug. 31, net was $12,282,358. This rate maintained in last two years is believed represents the present rate of earnings, and substantially more than one-half will have to be paid over to the Government. Atha Works, at Harrison, N. J., is supplying the Government about 83% of its entire output, in addition to 15% to Government contractors, so that practically entire output of that plant goes to assistance of the United States to cover war needs. Difficulty confronts company in finding high grade of materials to make crucibles for steel manufacture. No new clays yet discovered produce a crucible as durable as from clay mined in Germany. Owing to the poor heat-resisting qualities and high cost the crucible steel products, by far the largest value of output, now cost high figures to produce.

Distillers—In first ten months of 1917 understood to have earned a balance above taxes of 14%. This makes it reasonably certain that for all 1917 company will accumulate a dividend balance before taxes of $18. Booked to capacity with denatured alcohol orders, productive capacity is certain to be

worked to utmost during the war. Company has ceased making whiskey and distilled spirits. There will be no increase in dividend before March. If voted then rate will probably not be above $4. The policy is to turn surplus earnings back into redemption of bonds. By close of 1917 large reduction in bonded debt should be shown.

General Electric—Directors met in Boston to consider stock issue $10,000,000, with rights to subscribe for new stock at par and a stock dividend in addition to regular quarterly dividend of $2. In view of strong financial position with surplus $50,000,000, it is natural that company should capitalize some of its surplus assets Net working capital Dec. 31, 1916, was $83,179,121. Book value of investments $33,773,678, yielded 5.47% during year. With $10,000,000 notes just issued and proceeds of stock issue, company will be able to handle the business of 1917, estimated at $240,000,000.

General Motors—During October sold 19,169 cars, at rate of 230,000 cars for the year, against output for last fiscal year of 185,000 cars. Compared with October, 1916, gain was 6,221 cars, or 48%. In other words, in off season of a war year it has bettered 1916 first quarter by 16,548 cars, or $20,-607,000.

Lackawanna Steel—Officials in discussing excess profits taxes state that with possibility of amendments at forthcoming session of Congress no definite steps have been taken to figure out what the effect on company will be. Under law as framed it is estimated that between $9,000,000 and $10,-000,000 in excess profits taxes is the company's burden. Net for 1917, after excess war profits tax, is placed at $46 a share. net for current quarter should be $7,000,000, bringing total to $25,000,000. Deducting $9,-000,000 under war tax bill, profits on stock around $16,000,000 remains. In 1916 $34.81 a share was earned, so that net for two years, 1916-17, will be about $80 a share.

Loose-Wiles—During nine months to Sept. 30, 1917, earned at the rate of 12% on common after deducting the dividends on 1st and 2d pfd. stocks. By Dec. 31, 1917, 21% will have accrued on the 2nd preferred. Gross sales are running at better than $20,-000,000, against $12,000,000 four years previously.

Midvale—In manufacture of war material stands next to Bethlehem. Net in 1917 will run between $65,000,000 and $70,000,000. After Federal taxes, there should remain $16 a share for the common. Its importance as a producer of steel and ordnance is reflected in fact that net 1917 will be equal to earnings of Bethlehem Steel.

Superior Steel—Earnings during September and October showed a substantial improvement, and insure maintenance at rate shown in report for eight months ended Aug. 31, when earnings, after pfd. dividends and excess taxes, were $20.46 a share on common. Earnings on common are running about $30 for 1917, after taxes. Dividends of $6 per annum are being paid.

Union Bag & Paper—Surplus of $524,280 for quarter ended Oct. 31, 1917, is equivalent to $5.59 a share earned on capital stock, compared with $6.49 for preceding quarter.

United Cigar Stores—Net for full year 1917 is approximately $1,000,000 ahead of 1916 after taxes. Company will earn about $14 a share for its common in 1917, compared with $10.09 a year previously. United equipped 100 new stores in 1917. Its chain is made up of about 1,100 stores and 500 agencies. Sales for ten months gained $5,-900,000 over the period in 1916. Company has increased business in a two-year period by $12,000,000, or 40%. War taxes will cost about $300,000 annually, or 1% on common. Estimates of $14 a share for the junior issue are indicated after allowance for the war levy.

United Fruit—When the $10,000,000 maturing notes are retired will have really reached the point where it can be sure of the extinguishment of bonded debt. The only bonds left will be the $5,750,000 4½% debentures, being reduced at the rate of almost $900,000 per annum and will disappear entirely by maturity. In addition there are $1,732,080 of subsidiary companies' obligations, but these will be wiped out during the ensuing three years. A war emergencies reserve of $5,000,000 has been set up. When merger of Nipe Bay Co. is completed, combined statement will show a surplus of almost $60 per share on the $50,316,000 stock, which will be then outstanding. This is in addition to war and tax reserve funds.

U. S. Steel—Will continue to add to intrinsic value in spite of huge war taxes, and when the war is over the corporation is planning to be stronger and wealthier than ever before. With annual ingot capacity of 22,500,000 tons, pig iron 18,500,000 tons, and finished steel 16,500,000 tons, Steel now has an output almost equal to that of all Germany. In the third quarter of current year Steel's net earnings, without war taxes, were about $132,000,000. Shipments were approximately 3,750,000 tons. Ratio of net per ton of steel produced was approximately $35. Estimated Steel is earning $30 to $35 a ton on steel shipped, and on basis of Government prices, earnings are about $25 a ton.

Woolworth—October's sales showed gain of $1,630,850, or 20.43%, over the same month of 1916, and so far the increase for November over a year ago is running about 20%. On Nov. 1, stores had $17,300,000 merchandise on hand, largest ever carried, against $13,500,000 Jan. 1, 1917.

Railroad and Industrial Inquiries

Pitts. & W. Va.'s Coal Operations

W. A. H., New York City, N. Y.—Pittsburgh & West Virginia prospects have been dimmed by the price regulations of the Government. The stock was boomed on the idea that enormous profits would be realized from coal operations. It is doubtful whether the company will be justified in inaugurating dividends on the common stock for a very long time to come. The low selling price of the preferred stock measures the small hope for dividends on the common. We don't favor it now.

Discouraging Situation in the "Eries"

J. F. R., Springfield, Mass.—The Erie stocks, all of them, are in an unfavorable position. Indications are that Erie will show earnings on none of its stock issues this year. The road is heavily capitalized and is struggling under such great difficulties against the obstacles of railroad operation and financing, under the war conditions, that there is little hope for stock holders for a long time to come. If you are a holder of these stocks, we advise you to sell them at a favorable opportunity with the idea of buying more meritorious stocks at the opportune time.

Western Md.'s Earnings Position Poor

H. V. L., Philadelphia, Pa.—Western Maryland has an unfavorable earnings outlook at this time. So far this year the company has not been able to earn anything on its common or second preferred stock and for the first seven months has earned only 1.48% on the first preferred or at the rate of only 3.71% for the full year. We can recommend an exchange into Kansas City Southern common, though if you sell Western Maryland now it might be just as well to await more settled market conditions before buying Kansas City Southern.

An Unattractive R. R. Pfd. Issue

A. A. E., Chicago, Ill.—Chicago Great Western Pfd. earnings have been showing decreases and it is now estimated that for the fiscal year 1917 they will equal less than 4% on the stock. This would mean that they would fall short of requirements for the issue is a 4% cumulative issue. The road has never paid dividends at the regular dates and there are accruals of about two years dividends. The outlook is not particularly promising and we cannot regard the stock as worth holding.

By watching the Outlook columns of the Magazine, you may be guided as to when we consider it advisable to "buy again."

A Bargain in St. Paul Pfd.

S. S. C., Schenectady, N. Y.—Chicago, Milwaukee & St. Paul preferred is a bargain for anyone who has surplus money which they can afford to tie up regardless of possible lower prices for the stock. A dividend reduction is possible but we do not consider it probable. St. Paul has a wonderful future and its preferred stock should in time be restored to its position as a staunch investment.

Kansas City Southern's Price Range

M. L. L., Topeka, Kansas.—An exchange of your Erie (15) for Kansas City Southern (18¾) is advisable, although it might be a good idea for you to buy only half of Kansas City Southern now and wait for further developments before buying the full amount you expect to, as you might be able to obtain a second lot at a lower price. Earnings on this stock are running at the rate of about $6 or $7 a share per annum. It has splendid speculative possibilities for a long pull.

The record of high and low prices is as follows:

Year	High	Low
1917	25⅞	15
1916	32½	23½
1915	35⅛	20⅝
1914	28½	20¼
1913	28⅜	21⅜
1912	31¼	22½
1911	37⅜	25¼
1910	44¼	23
1909	50¼	37
1908	42⅜	18
1901-7	39	13½

This table is the more significant in showing the cheapness of the stock in view of its current strong earnings' position.

A High Grade Rail-Investment

E. M. K., Duluth, Minn.—Great Northern is one of the best railroad stock investments available. Its decline is due to various causes, not the least of which has been foreign liquidation. Contributory causes have been heavy decreases in the earnings of the road this year as a result of the rising scale of operating costs, and generally unfavorable investment market conditions brought about by the entrance of the United States into the war. The stock enjoys a very high rating indeed, and we recommend that you hold it.

A Good Speculative Investment

S. R., Toledo, Ohio.—Standard Milling has been greatly benefited by the war, but its earnings began to show an unmistakable upward tendency as early as 1912. In 1911, 5.98% was earned on the common, and each year since then, up to the year ended Aug. 31, 1917, earnings have been as follows: 7.40, 9.29, 14.18, 16.81, 27.60, and 27.43. Although Standard Milling commons present price level is well above that prevailing before the war, we regard the stock favorably and recommend its purchase, provided you are prepared to carry it through any further possible decline.

BONDS AND INVESTMENTS

Early Maturing High Grade Railroad Bonds

Why Short Term Investments Are Now Desirable—Opportunities Which Are Overlooked — Great Variation in Yields

By IRVIN GILLIS

THIS isn't the time of day to be taking on speculative securities. That idea needs no argument. But here is another—it isn't the time to be taking on "slow" stuff. To-day I called up the specialist in a fairly large security issue for a market, expecting perhaps only a nominal one. He replied that there wasn't any market at all—not a bid in sight. It seems to me that when the market does start to show any signs of life that the best securities will go up first.

Investors have apparently overlooked some unusual opportunities for sound investment in good old bonds, put out years ago, of the seasoned, legal type, which have gone through previous storms, are stronger than ever before and are drawing nearer and nearer to pay-off day. The list below contains bonds of unquestionable security. They are nearly all highly marketable, not only listed but active. They are all relatively short term now and they are listed in order of maturity.

In picking securities it would still seem best to stick to the shortest maturities. Most of those listed below are cheap—they may and probably will be cheaper. They are, most of them, selling to yield with unexpected liberality.

You will find that the list shows striking anomolies, both as regards yield and as regards comparison with other bonds. You will find for example that one short term bond sells on a higher yield basis than a very long term bond of the same mortgage. You will find another that yields less than New York City bonds.

I am giving a brief description of each issue on the list with the idea of placing it definitely in comparison with the others. The list is not given with the idea that it is selected for instant purchases, but to be a help a little later on when a few of the current difficulties have cleared away. The shortest maturities may be among the best purchases within a few weeks, but nearly all of those on the list may be purchased within a comparatively short time with the confidence that they will not only be paid off at maturity, showing attractive yield meanwhile, but over the short period of years before their redemption, show a nice increment in the capital invested.

(1) Chicago, Burlington & Quincy, Iowa Division Sinking Fund 4's and 5's, due October 1, 1919. These good old legal bonds were put out in 1879, and are still going strong. Over a third of the 5's, and over half of the 4's have been retired by the sinking fund which has been taking them in by open market purchase. They are a first mortgage on 891 miles at the rate of $7,586 per mile. There isn't even an argument about the security. The 5's sold over 103 in 1916 and the 4's up to around par. The 5's are now selling around 99½ to yield 5.50 per cent, and the 4's at 96⅞ to yield 5.68 per cent.

(2) New York, Lackawanna & Western First Mortgage 6's, due January 1, 1921. This is a first mortgage on 215 miles of main line, of which 213 miles are double track, including the main line of the Delaware, Lackawanna & Western, from Binghamton to International Bridge, N. Y., and terminals in Buffalo. The New York, Lackawanna & Western is under perpetual lease to the Delaware, Lackawanna & Western. They don't make bonds safer than these. They are of course premium bonds, and aren't apt to sell much if any below par before maturity. The high for 1916 was 109½. Present price 103½, yielding 5.12 per cent.

(3) Louisville & Nashville, Southeast and St. Louis Division First 6's, due March 1, 1921. This closed issue of $3,500,000 is outstanding at the rate of $16,826 against 207 miles of division lines in Illinois. I am not usually strong on divisional liens, but this direct obliga-

tion of the Louisville & Nashville, "legal" for eleven states, hasn't sold below 107 in the ten years up to 1917—as far back as I've looked—and I can't see anything in the situation to warrant considering these 6's anything but a very high grade issue. The second 3's of 1980 following the 6's of 1921 are very highly rated in the street. At around par the first 6's are out of line.

(4) Alabama & Vicksburg Consolidated First 5's, due April 1, 1921, constitute a small issue outstanding at the rate of $4,100 per mile, subject to a prior lien of $7,000 per mile. This is a strong little railroad extending across the state of Mississippi from Vicksburg to Meridian, and is controlled through stock ownership by the Alabama, New Orleans, Texas & Pacific Junction Railways Company, which is controlled by English capital. This little road has been a splendid earner, showing a balance for interest charges five times over for the fiscal year ended June 30, 1917, about four times over in 1916, and three times over in the three previous years. The present market on the 5's of 1921 is 95 asked, to yield 6.40 per cent.

(5) Northern Pacific-Great Northern Joint Collateral 4's, due July 1, 1921. This is one of the star issues on our list. The bonds are a direct obligation of the Great Northern and Northern Pacific Railway Companies, and are secured by deposit at the rate of $500 of Chicago, Burlington & Quincy stock for each $1,000 bond of this issue. These 4's are very active and show an unusual yield considering their security. Present market price is 93⅜, which means 5.82 per cent, if held to maturity.

(6) Chicago & North Western 30-Year Debenture 5's, due April 15, 1921. As a plain bond, these debentures are better than a good many first mortgage securities directly on the rails. It's earnings that make the security in any case and the Chicago North Western has the earnings. Last year these bonds sold up to 103½, and the present price is 95½ to yield 6.50.

(7) Rensselaer & Saratoga First 7's, due May 1, 1921. This is a first mortgage on 134 miles of road opened for traffic in 1836, and now constituting the main line trackage of the Delaware & Hudson, to which the Rensselaer & Saratoga is leased. These assumed bonds sold up to 113 in 1916, but you can buy them now around 102½ to yield 6.27 per cent. They are cheap and good. They are "legal" in New York and eight other states.

(8) Central Railroad of South Carolina First 6's, due July 1, 1921. They are a first lien on a little over forty miles of road and equipment leased to the Atlantic Coast Line at a little better than 10 per cent on this small issue of $300,000 until 1980. They are "legal" in Michigan, New Jersey, Wisconsin, California, Florida and Minnesota. Your banker would probably have to pick up these bonds in Baltimore. They yield around 5.43 per cent at the price, 102.

(9) Pennsylvania First 4½'s, due July 1, 1921. This obligation of the Pennsylvania Company is a first lien on several valuable leases, certain real estate and a large amount of stocks and bonds. The issue was put out in 1881. A sinking fund provided for 1 per cent each year at not over par. Only in three of the last ten years have they sold below this figure, and it is not surprising that only $671,000 of the issue has been retired, while the

HIGH GRADE BONDS OF EARLY MATURITY

	Due	Price	Per Cent Yield,
Chicago, Burlington & Quincy, Iowa Division, 4s and 5s	October 1, 1919	96⅞-99½	5.68–5.50
New York, Lackawanna & Western, 1st 6s	January 1, 1921	100½-106	5.12
Louisville & Nashville, St. Louis Division, 1st 6s	March 1, 1921	99⅝	6.05
Alabama & Vicksburg Consolidated, 1st 5s	April 1, 1921	95	6.40
Chicago & North Western Debenture 5s	April 15, 1921	94½-98	6.50
Rensselaer & Saratoga 1st 7s	May 1, 1921	100⅞	6.27
Northern-Pacific Great Northern, Joint Collateral 4s	July 1, 1921	93⅜	5.82
Central Railroad of South Carolina 1st 6s	July 1, 1921	102	5.43
Pennsylvania Company 1st 4½s	July 1, 1921	95½-98	5.35
Oregon Short Line 1st 6s	February 1, 1922	100½-103	5.87
Chicago, Burlington & Quincy, Denver Extension S. F. 4s	February 1, 1922	99-99¾	4.22
Maine Central Collateral S. F. 5s	June 1, 1923	97½	5.50
Baltimore & Ohio prior lien 3½s	July 1, 1925	86½-87	5.75
Chicago, Milwaukee & St. Paul gold 4s	June 1, 1925	75½-76½	7.80
Lake Shore & Michigan Southern Debenture 4s	September 1, 1928	85-85⅝	5.70
Colorado & Southern 1st 4s	February 1, 1929	82½-83	6.07
Chesapeake & Ohio General Funding and Improvem't 5s	January 1, 1929	76½-89½	6.25

public holds $16,935,000. They are legal in New Hampshire and Rhode Island. The yield is 5.35 at the asked price of 98. I wouldn't bid very close to 98 for them.

(10) Oregon Short Line First 6's, due February 1, 1922. This issue, put out in 1881, is closed with $14,931,000 outstanding. It is a first lien on 611 miles of heavy earning Union Pacific trackage, and the mortgage includes equipment. They are active bonds of the highest character. At par and a half they yield 5.87 per cent. In 1916 they were up to 109 and in 1907 sold as high as 126, but it must be remembered that they have been a premium bond.

(11) Chicago, Burlington & Quincy, Denver Extension Sinking Fund 4's, due February 1, 1922. Through collateral it is a first lien on 369 miles of road and also secured by $540,000 out of $2,105,000 first mortgage bonds covering 180 additional miles. These 4's are perfectly safe, and have sold around par for several years. They are now quoted about 4.22 per cent at 99. I don't want any these days.

(12) Maine Central Collateral Sinking Fund 5's, due June 1, 1923. This small closed issue of $659,000 is secured by an equal amount of Maine Shore line first 6's of 1923. Some of the bonds have been retired through the sinking fund, but as the bonds normally sold above the purchase limit of 105 the sinking fund went into other securities, and at last notice some $325,000 bonds of the Boston & Maine and Maine Central systems were held in the sinking fund. The small 1923 maturity is high grade and well protected by earnings. It is "legal" all through New England. At 97½ it yields 5.50.

(13) Baltimore & Ohio Prior Lien 3½'s, due July 1, 1925. This is a large issue with $74,895,000 out of $75,000,000 outstanding. It is a direct or collateral lien on 1,077 miles, including docks, buildings and equipment. The mileage includes the main tracks between Baltimore, Washington and Pittsburgh and part of the main line to Cincinnati and St. Louis. The bonds are outstanding at the rate of $69,632 per mile, but they are prior to the first 4's (which provide for the retirement of the 3½'s) the general and refunding mortgage bonds of 1995 and the convertible 4½'s of 1933, all of which are good. The 3½'s of 1925 put out in 1898 is one of the best of the old prior lien securities, and is legal in some twelve States, including New York. At 86½ they yield 5.75 per cent, but they have not gone off much from the high of last year of 94½.

(14) Chicago, Milwaukee & St. Paul Gold 4's, due 1925. These bonds were offered in January, 1916, by Kuhn, Loeb & Company and the National City Bank at 96. They are now selling at 76 and yield 7.80. They are indirectly secured equally with the general and refunding mortgage of the St. Paul, but the general and refunding 4½'s are selling on a basis of several points high price yielding 6.43 per cent, while the general mortgage bonds are not due until 2014. Here is one of the startling anomolies in the investment market today. The price of the common stock and earning figures are discounting possible changes in the disbursement on the stock, but it's a long call from a debate on the security of the common dividend to the danger to these gold 4's. They may be cheaper, but they are bargains right now.

(15) Lake Shore & Michigan Southern Debenture 4's, due September 1, 1928. This is a closed, though good sized issue of $50,000,000. Since the consolidation of the Lake Shore and the New York Central they have been secured equally with the debenture 4's of 1931, being a second lien on about 983 miles, with the Lake Shore & Michigan Southern 3½'s ahead. They are prior to the Lake Shore collateral 3½'s of 1998, to the New York Central Series A. consolidation 4's of 1998, and to the large general New York Central refunding and improvement mortgage of 2013, the latter providing for the 4's on our list.

(16) Colorado & Southern Railway First 4's, due February 1, 1929. This $20,000,000 issue, which is all out but about a half a million, is a first lien on 1,088 miles, the main lines, and a second lien on some $26,522,000 of securities. Earnings on this system, which is controlled by the Chicago, Burlington & Quincy, have been better than generally recognized. At the present price of 82½ yielding 6.07 per cent, the first 4's compare well with the rest of the security list.

(17) Chesapeake & Ohio General Funding and Improvement 5's, due January 1, 1929. Only $3,698,000 of the $30,000,000 are outstanding, but $19,000,000 are reserved for future needs, and $7,302,000 are pledged under the first lien and improvement mortgage. However, the outstanding amount is limited to $11,000,000 as long as any convertible 4½'s or first lien and improvement bonds due 1930 are outstanding. The 5's of January 1, 1929, are a second lien on 729 miles and a third lien on 802 miles. They figure out at the rate of $6,159 per miles, but subject to prior liens at the rate of $55,000 per mile. The 5's of 19.9 cannot be considered of the highest grade, but the Chesapeake & Ohio has good earnings and the 5's are not out of place in any business man's list. They were put out in 1909, and for some years stood around par and up to 106½. In 1915 they were off to 83. They are now selling around 89½ as against a high of 98 in 1916. They yield 6.25 per cent.

Bond Inquiries

Frisco 4s Speculation

H. N. D., Syracuse, N. Y.—St. Louis-San Francisco Prior Lien 4s bonds are secured jointly with the Series B 5s upon the entire property of the road, being a direct or collateral lien on 3,923 miles of road, on leasehold interest in 1,211 miles, appurtenances, equipment, securities, trackage rights, etc., and all other property hereafter acquired with the proceeds of both classes of bonds, the adjustment Mortgage bonds or the Income Mortgage bonds. These bonds are subject to $18,418,300 prior lien. Sufficient of them are reserved to retire at maturity the General 5s and 6s, and the Equipment Trust obligations due after Jan. 1, 1917. Sufficient of them have also been issued and set aside to apply to the refunding, payment, purchase or acquisition of certain other securities. This issue of bonds will ultimately be subject to only the General 5s and 6s and outstanding equipment obligations. Since reorganization, the position of the road has not improved enough to justify us in according these bonds an investment rating of the best grade. We do not favor the purchase of a bond of a speculative character like this at present.

Choice of Convertibles

N. J. T., Kokomo, Ind.—We approve of the sale of your Calumet and Southern Chicago Railway 5s and the reinvestment of the proceeds in Chesapeake & Ohio convertible 5s and Southern Pacific convertible 5s.

In preference to New York Central debenture 6s, we suggest a purchase of Consolidated Gas Electric Light & Power of Baltimore convertible 5s, described on page 887 of the Sept. 29 issue of The Magazine of Wall Street in the article by Irvin Gillis.

A Woman's Investment

B. B. J., Dover, Del.—Northern Pacific 3s are one of the highest grade railroad bond investments on the list and they are suitable in every way as an investment for a woman, provided she is simply desirous of holding them for safety of income. Owing to peculiar conditions affecting the market for long term bonds at this time, we rather expect lower prices in issues of this character, but there can be no doubt as to the ultimate safety of your principal and income in Northern Pacific 3s.

New Haven Notes Unsafe

A. F. L., Baltimore, Mo.—New Haven Collateral Trust 5% Gold notes, due April 15, 1918. ($45,000,000 outstanding), selling on a 30% yield basis, do not inspire confidence in the ability of the road to take care of them. It is conservative to assume that receivership is not such a remote possibility. We do not recommend them.

Investment Suggestions

M. S. T., Washington, D. C.—Baltimore & Ohio 1st and refunding 5s, Prov. of Alberta Gold Debs., Montana Power 1st and refunding 5s, Kansas City Southern Ref. & Imp., American Tel. & Tel. Coll. Tr. 5s and S. W. Straus 1st Mtg. Real Estate Bonds are securities of merit and our only suggestion is that you hold them. The Liberty Loan, of course, needs no comment.

Interborough Rapid Transit 1st and refunding 5s are undoubtedly high grade bonds but there are certain elements which will probably be against any very important or substantial advance in these bonds for a long time to come and we recommend that you switch into Southern Pacific convertible 5s. These latter are very attractive and desirable both from the standpoint of security of principal and interest and because of the conversion feature which gives them speculative possibilities.

Amer. Foreign Securities 5s Not Altogether Safe

A. W. G., Louisville, Ky.—American Foreign Securities 5s have declined to a very low level and while there is some speculativeness in them still, it would hardly seem advisable for you to take such a large loss as the commitment shows you. Of course if you desire perfect safety, you should not hold them. Possibly it would be a good idea for you to sell one-half of your holdings, thus releasing funds which could be held for reinvestment when the opportune time arrives.

Bond with Small Margin of Safety

H. N. R., Williamsport, Pa.—Georgia Light, Power & Railway first lien sinking fund 5s cannot be regarded as a sound investment issue. Of course the bonds have been subject to unfavorable conditions affecting the bond market generally and the public utility bond market in particular, but aside from outside considerations it should be borne in mind that this company has never shown a record of earnings to justify the establishment of the bonds on an investment plane. In 1913 the interest was earned only 1.30 times, in 1914, 1.32 times, while in 1915 a deficit of something like $60,000 was shown and in 1916 the interest was earned only 1.25 times. Now the company is contending with the factors of high material and labor costs, the chief contributors to rising expenses, while it is unable to get any measurable relief by means of increasing its charges for service. We recommend a sale of these bonds.

PUBLIC UTILITIES

Consumers' Power Prospects

A Well-Managed Company Unhampered Like Others by Too High Costs—An Investment Opportunity for the Business Man

By LAURENCE S. RENZER

"IN these falling markets, where can I invest my surplus funds?" asks the business man with money on hand.

He travels around from his broker to his bank and eventually gets back to his office about as undecided as when he started out. Let him consider the securities of the Consumers' Power Co.

A Thriving Company

Back in 1910 when the Public Utility stocks were forcing their way into public attention, the Consumers' Power Co. was incorporated. During the seven years of its life, it has had a consistent and steady growth. Examine Table I, which shows earnings since 1912. A notable feature of this table is the fact that while gross earnings have increased 92 per cent. in six years, the net earnings have increased 98 per cent. This certainly shows excellent management and good results in spite of the increased costs which have affected nearly all public utility companies.

The Consumers' Power Co. became a holding company in 1915 by taking over eleven companies, all in Michigan, except in one instance, but since that time there have been additions which have in every case proved desirable purchases. All the franchises are located almost entirely on private rights-of-way and current is distributed in the various municipalities under satisfactory franchises. The property which can be visualized from the accompanying map has been gone over by the best engineers of the most prominent of our large Investment Firms and has been rated A 1. In addition, the duplication value of the properties (*on the basis of appraisals caused to be made by the Michigan Railroad Commission*) represents a *large equity* in excess of the Company's outstanding funded debt.

TABLE I—EARNINGS.

Both gross and net earnings have shown continued and substantial increases as evidenced by the following figures covering operations for the past five calendar years:

	1912	1913	1914	1915	1916
Gross Earnings	$2,774,551	$3,155,214	$3,415,403	$3,902,069	$4,747,201
Net Earnings	$1,245,852	$1,440,658	$1,907,094	$2,265,503	$2,504,334

Earnings for the year ended July 31, 1917, were as follows:

Gross Earnings	$5,324,894.29
Operating Expenses, including taxes, maintenance and renewals	2,855,431.67
Net Earnings	$2,469,462.62
Annual Interest on Funded Debt, including this issue	1,175,160.00
Balance	$1,294,302.62

INCREASE IN POWER SALES

	K.W.H. Sales	Inc.%		K.W.H. Sales	Inc.%
1912	114,176,470	....	1915	167,419,797	9.6
1913	140,911,605	23.4	1916	223,002,284	33.2
1914	152,716,259	8.3	1917	285,576,429	28.

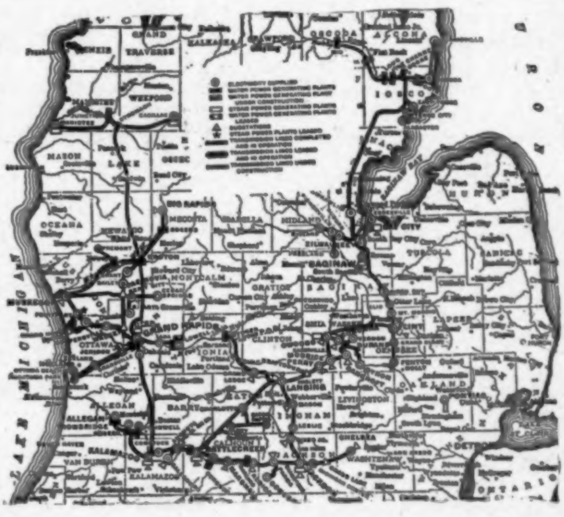
The Property

The Consumers' Power Company owns hydro-electric generating plants located on the Au Sable, Manistee, Grand, Muskegon and Kalamazoo Rivers, steam generating plants at Grand Rapids, Jackson, Saginaw, Bay City, Battle Creek, Flint, Kalamazoo and

Pontiac and valuable additional flowage lands, water rights and dam sites on the five important rivers.

The hydro-electric generating plants of the Company have a total installed capacity of about 66,000 H. P., and the steam plants have a total rated capacity of about 90,000 H. P., making a total of about 156,000 H. P. There are also under construction three additional hydro-electric plants—one on the Manistee River with 23,000 H. P. capacity expected to be in operation next January, and two on the Au Sable River with a combined capacity of 28,000 H. P., which are expected to be completed and in operation early in 1918. Upon the completion of the foregoing installations, the rated capacity of the Company's plants will aggregate 220,000 H. P., *of which* 117,000 *H. P. will be water power* and 103,000 H. P. Steam.

With the large amount of hydro-electric power supplemented by reserve steam stations of modern type, the plants can be operated economically and current furnished at a low price to the consumer.



The Territory Served

The territory served by the Company is an important and growing manufacturing, commercial and agricultural section, with excellent railroad and lake transportation facilities. Of the many cities and towns included in this territory Grand Rapids is the largest, having a population of 112,571 (according to the 1910 census), and being the second city in size in the State. Many of the other cities served are likewise important manufacturing centers, producing machinery, automobiles, chemicals, refrigerators, stoves, engines, wagons, brick, etc.

The market for electrical energy is diversified, as in addition to the large amount of current sold to manufacturing industries, the Company has satisfactory contracts to provide power for the operation of street and interurban railways, and in addition to its commercial electric lighting business it also does the municipal lighting in many of the cities served.

The Company, through the abundance of cheap power, has done much toward the industrial development of this section of the State of Michigan, and has encouraged industries of all classes to locate along its transmission lines.

It is therefore apparent that the "open secret" for the success of this company lies in the fact that the hydro-generating plants can work at less than one-half the cost of the fuel generating plants. Over one-half of the power furnished by this company is derived from water.

On account of the close supervision of the very efficient Michigan Railroad Commission and also of the New York bankers and investment firms who stand sponsor for the securities of this company, the increase of capital has not been in the slightest degree excessive in consideration of the properties purchased and the improvements made. The book values are very conservative and the purchasing ability of the management above par.

The Outlook

In July, 1916, James Speed, in The Magazine of Wall Street, wrote: "Electrical power development in this country is still in its infancy and there is nothing to indicate that the demand for electricity in the

territory served is likely to fail to show at least the average yearly increase as exhibited to date."

Mr. Speed's prophecy has been fulfilled and has been exceeded. The same prophecy holds good for the coming years; for this territory has not felt the depressing effects of the East and, more than this territorial factor, there is the desirable feature that the high cost of fuel material such as affects a Utility like Consolidated Gas of New York is offset by the hydro, or water, generating power of the Consumers' Co.

Another favorable factor in the outlook is the fact that politics is not likely to affect the future as it has affected the Peoples Gas, Coke and Light Co. of Chicago. City, interurban, farm districts and municipalities must all be supplied. War demands for manufacturing must be considered also and the sale of k. w. hours as shown in Table I is more likely to increase than decrease.

The margin of safety of the refunding 5 per cent. bonds is very great and they are ranked among the best of the public utility class. They are a first lien and, as the reader will have observed from this analysis, are backed by property thoroughly investigated and not over valued. They are further endorsed by the very best bankers and are closely held as investments. The price has varied between par and 90 and the market is a very close one.

They are secured, in the opinion of counsel, by a direct first mortgage on properties having generating plants with a rated capacity of approximately 139,000 H. P. (including 51,000 H. P. under construction), and are also secured by a first mortgage on very valuable undeveloped water rights, which are capable of large ultimate development. They are further secured by a mortgage on the remainder of the property, subject to the underlying divisional (closed) mortgage bonds, which it will be noted aggregate less than 10 per cent of the total bonded debt at this writing.

The $4,000,000 Two-Year 6 per cent. Secured Gold Notes, in addition to being the direct obligations of the Company, are secured by the pledge of $5,333,000 face value of the Company's First Lien and Refunding Mortgage 5 per cent. Bonds. The authorized issue of these Notes is $4,000,000 all of which have now been issued.

The entire issue of common stock is owned by the Commonwealth Power, Railway & Light Co. so that nothing need be said about this issue.

The issuance of the preferred stock has all been authorized by the Michigan Railroad Commission and is tax exempt in the state of Michigan. Dividends have been paid at the rate of 6 per cent. per annum since the organization of the company. Over 2,400 investors in 44 states and countries are owners of this stock and about 50 per cent of this number are women. Consumers' Power may well be classed among Public Utilities as the Pennsylvania Railroad is classed among our rails. In 1915 the preferred dividend was earned three times and in 1917 nearly five times.

The price has for a number of years been around par (98-101) but, during the recent decline, went down to 88-91. The yield of over 6.6 per cent should look very attractive to the investor at present, and in addition, there is the opportunity for at least a few points profit to increase his capital.

TABLE II—THE CAPITALIZATION.

	July, 1916		Oct., 1917	
CAPITAL STOCK:	Authorized	Outstanding	Authorized	Outstanding
Common Stock	$12,000,000	$10,500,000	$20,000,000	$11,250,000
Preferred 6% Cum.	10,000,000	7,675,000	20,000,000	10,000,000
SECURED NOTES:				
Two year 6% 1919	....	....	4,000,000	4,000,000
BONDED DEBT:				
1st Lien and ref. 5% 1936	35,000,000	14,786,000	35,000,000	16,849,000
Divisional Bonds	Closed Mtgs.	2,038,500	Closed Mtgs.	1,854,200

Note.—$5,333,000 additional 5% bonds deposited as collateral for the $4,000,000 Two-Year 6% Secured Notes. The Michigan Railroad Commission authorizes all the issues of this company on the basis of official appraisals.

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.

Am. Telephone & Telegraph—$3,127,000, estimated by a New York banking house as excess profits tax for 1917, is far above the amount that it will be necessary to pay, according to a reliable authority. Experts have prepared a number of estimates on different bases, according to strict or liberal interpretation. Under the most expensive estimate the total tax of Bell system for 1917 will be under $1,000,000. From this point figures graduate downward. If the tax finally settles around $500,000 it would about meet the expectations of those who have given the subject careful attention.

B. R. T.—In making application to First District Public Service Commission for a rehearing of order that the company provide 250 additional surface cars, called attention to increasing cost of operation by reason of higher prices for labor and materials, and estimated such additional cost, exclusive of interest, at about $1,000,000 a year. The 5% notes maturing July, 1918, are represented by more than an equal amount of money spent, and come ahead of the $100,000,000 expenditure the city of New York agreed to make.

Brooklyn Union Gas—Reported that officials of Government and company had reached an agreement for immediate installation by the Government of apparatus for the reduction of toluol. It will be several months before the new plans will be in operation. The plants will be operated by Brooklyn Union and terms will be determined later. The agreement is the result of the need for toluol, used in the high explosive T. N. T., and Government desires to have gas companies make toluol. In first nine months of 1917 gas sales showed increase 6.3% over corresponding months of 1916, while daily sales showed average increase of 2,491,229 cubic feet. Report, nine months ended Sept. 30, 1917, shows: Gross receipts, $1,595,836; net earnings $2,158,338; net profit, $1,388,917. Omission of the usual semi-annual extra of 1% was due to abnormal increases in raw material costs. Gain in net was more than offset by the advancing costs.

Cities Service—

Reports Earnings:	1917	1916
Oct. gross	$1,659,665	$1,122,910
Net	1,630,019	1,102,869
Surp. aft. chgs.	1,629,794	1,102,477
Bal. aft. pfd. div.	1,302,858	829,298
12 mos. gross	18,706,604	8,233,952
Net aft. tax	18,369,353	8,001,568
Surp. aft. chgs.	18,366,369	7,661,499
Bal. aft. pfd. div.	14,761,535	5,542,151

The better earnings statement reflected increased oil production and sales at higher prices. About middle of August, mid-continent advanced 30% to $2 a barrel, which meant a great increase in earnings.

Cleveland El. Illuminating—Ohio Public Utilities Commission has rendered a report on the valuation of properties, showing value of property owned by the company as of July 1, 1914, had been fixed at $21,428,987. The city has had a suit against company for reduction in rates and valuation will be used in determining the course of commission's decision.

Columbia Gas & El.—

Reports Earnings:	1917	1916
Oct. gross	$835,614	$712,715
Net after taxes	369,564	345,117
Total income	534,812	398,960
Surp. after chgs.	182,654	51,409
10 mos. gross	8,718,356	7,219,362
Net after taxes	4,367,202	3,627,131
Total income	5,987,820	4,080,443
Surp. after chgs	2,484,618	659,374

Edison, Boston—Reports it will be little affected by order of Fuel Administration restricting burning of coal for sign advertising. One per cent of consumption of coal is required for signs. It is estimated the order will cost the company under $25,000 a year.

Massachusetts Gas—Combined net earnings of subsidiaries for October were $463,994, an increase of $157,158, or 33.87%, compared with corresponding month in 1916.

Northern States Power—

Reports Earnings:	1917	1916
Sept. gross	$566,322	$485,175
Net after taxes	225,672	255,767
12 mos. gross	6,857,192	5,822,702
Net after taxes	3,545,946	3,233,956

During the 12 months fixed charges $1,655,857, left a balance of $1,890,089. Surplus after preferred dividends, available for depreciation, amortization, etc., was $1,003,097.

Third Avenue—At a recent meeting, a stockholder suggested that if the management was not able to maintain operations at a profit, it would be better for stockholders to take steps to turn the property over to N. Y. City to let it be operated on municipal ownership plan. In reply Pres. Maher said: "I am not in favor of municipal ownership, and I say this without prejudice. I am hoping to retire on Jan. 1. I have been working for more than half a century and feel that the time has arrived when I should step aside and let younger men take my place and maintain the company on a strong basis."

United Light & Rys.—Has authorized a new issue of $1,500,000 6% bond-secured gold notes, proceeds to be used to retire $750,000 6% notes due Jan. 1, 1918, and to take care of additions, extensions and betterments.

MINING AND OIL

The Merging of Osage-Hominy

Romantic History of the Company—Yields and Value—Prospects for Stockholders Under the Merger with Oklahoma Producing & Refining—Should Holders Make the Exchange?

By VICTOR DE VILLIERS

WE KNEW a dear old lady who amassed a tidy sum by following names instead of past performances. Hers was a system of investing made easy. Its chief merit was simplicity. Her investment list bristled with names like "Golden Rose," "Purple Lily," or "Pink Cameo Mining," to which she had taken a fancy—each a winner. She's dead now, but one wonders whether Osage-Hominy, oil stock and romance-maker, with its weird suggestion of the latest in breakfast-foods, would have figured among her winners.

Space forbids more than a passing reference to the romantic rôle this big little oil enterprise has played in the lives of men—white men and red men—since the first of its drillers' needles punctured the earth's crust in quest of "liquid gold."

Money to Burn

Osage-Hominy has put a master-kink in the *per capita* wealth statistics of the learned gentlemen paid by Uncle Sam to compile such data. December 18, 1916, should be a red-letter day in the annals of the two thousand odd members of the Osage Indian tribe, for on this date Osage-Hominy started its corporate life with ownership of a half share of certain oil leases in the Indian Reservation which have made the tribe famous. This half share cost $6,000,000; the other half is said to have cost more than that.

Osage-Hominy set a rapid pace in price, and speed of development that others found hard to equal. In May and November of this year other leases in the Reservation changed hands, by auction and private treaty, for account of the tribal treasury. The average price was $1 an acre. Choice tracts of 160 acres realized $200,000 a tract. Leases being subject to cash bonuses, annual rental and other privileges reserved to the tribe have given the Osages something to worry about when it comes to figuring up the income tax under present complicated regulations. Need we add that for them the tepee has given way to the stately villa, the tomahawk to the swagger-stick, and that the picturesque beads, blankets and feathers dear to the heart of the motion-picture devotee will soon be a curiosity, even to the Indians of Osage County?

Number Seven of Section Eight

Osage-Hominy's historic $6,000,000 lease, known as "Section Eight," was originally sold by auction at the Pawhuska headquarters for Indian Affairs, Oklahoma, in 1913, to Dr. S. K. Kennedy, on his bid of $1.10 an acre, or $5,258 cash bonus. The lease was subject to the usual conditions regulating all sales of Osage lands, namely, a rental of 15 cents an acre the first year, 30 cents the second year, 50 cents the third, and $1 thereafter till oil was produced. When production was developed, a one-sixth royalty was to be paid to the tribe.

Dr. Kennedy was in reality acting for himself and his partner, W. A. ("Gus") Springer. The latter, then an employee of the Hill Oil & Gas Co., for whom he had selected valuable leases in the famous Cushing pool—since sold to Cosden & Co.—did not wish to bid personally at the sale and perhaps create the impression that the Hill company was reaching out for territory. By doing so he would be putting up the price against himself.

"Doc" Kennedy had little faith in the choice of "Gus" Springer. He fully be-

lieved that his partner had "handed him a lemon" this time. There followed a nerve-trying period of discouragement and vanishing funds, till Springer met the firm of White & Sinclair, and through sheer enthusiasm persuaded them to drill the lease for a half interest in production. Harry Sinclair, of that firm, president of the Sinclair oil companies, has already been introduced to our readers in these pages.

Between August, 1914, and the middle of 1915, production was insignificant, and with the growth of the Cushing pool then gushing oceans of oil which could hardly be given away around 40 cents a barrel, the last hopes of these pioneer operators were dashed to the ground. The drill was withdrawn from "Well No. 7," and all operations ceased. A little later, White and Sinclair were lucky enough to trade in their share of "Springer's lemon" to the Tidal Oil Co. for about $20,000. They had spent more in drilling, but there was great rejoicing in the White & Sinclair camp.

"Doc" Kennedy and "Gus" Springer, who turned an investment of $5,000 into $6,000,000

But the Tidal Oil Co., now a partner of Kennedy & Springer, was not so easily discouraged, especially when the Cushing pool commenced to show signs of petering out. Drilling on No. 7 was resumed, the prolific Bartlesville sand was reached, and in a few days, with oil spouting over the derrick, the fortunes of Kennedy & Springer and also of the Osage Nation were practically assured. Other wells came in on the lease in rapid succession; pipe-lines were laid by the Prairie Pipe Line Co. and others, and in December, 1916, Kennedy & Springer divided a bankroll of $6,000,000. They had sold out *their half share* in the lease of Section 8 to the Oklahoma Producing & Refining Company.

Their partner, the Tidal Company, later sold its half share for something over $6,000,000.

The purchaser was the Sinclair Oil Company, Harry Sinclair, president!

Promotion of Company

Under the auspices of the Oklahoma Producing & Refining Co., a well known independent operating in the Mid-Continent field, Osage-Hominy was launched in December, 1916, with a capital of $5,000,000. Of its 1,000,000 shares, par $5, about 51 per cent. was allotted at par to the parent company, and about 49 per cent. is understood to have been offered to, and over-subscribed by, friends of the management, at around 6.

The subsidiary was created to operate the lease, and others which might be acquired, and so insure an adequate supply of crude oil and gas to the refineries of the parent and its affiliated companies. The lease held in undivided half shares with the Sinclair Company is a compact tract of 4,780 acres of practically proven oil lands in the Hominy pool, 50 miles northwest of Tulsa, and bounded on its east and south side by Hominy, Osage City, and Pawhuska, the

seat of the Indian government, Oklahoma.

The oil produced grades as "Cushing crude," commanding a premium of 25 cents a barrel over the regular posted price for Oklahoma crude, now selling around $2 a barrel, and is specially adaptable for the manufacture of gasoline. The Hominy pool is regarded by oil experts as a formidable rival of Cushing, with excellent possibilities for similar extensive development.

The company has since purchased, also in conjunction with a Sinclair company—the Sinclair Gulf Corporation—an additional lease of 160 acres adjoining present holdings for around $200,000.

Oil Minus Water

The management regards the lease as a bargain. If it is not, stockholders may derive comfort from the fact that the Sinclair interests paid considerably more for their share. Who got the best of the bargain still remains to be seen. It is certain, however, that no attempt was made by the Crawford management of Osage-Hominy and Oklahoma P. & R. to boost the capitalization of the new company by adding "water" to the oil, and it is upon a supposedly rock-bottom capitalization of $5,000,000 that one can attempt to criticize the judgment of the management.

The apparent unloading of this promising property by Tidal Oil, Kennedy and Springer prompts the pertinent queries, why did they sell, and what's the matter with it anyway? We suggest that while the Hominy pool and lease possess undoubted present and potential value, the principle "a bird in hand is worth two in the bush" may be the point of view of its former owners. The "bird" is certainly a golden eagle when it wears a $12,000,000 top-knot. One cannot blame the persons concerned for refusing to let it get away from them.

Development and Results

If the management made a mistake, it wasted no time in regrets, as production and earning figures will demonstrate. Commencing the year 1917 with an initial production of around 5,000 barrels daily from 11 wells, Osage-Hominy has since brought in about 73 additional wells, producing a further 5,000 barrels daily, making a total of 84 oil wells with a fairly settled production of around 10,000 barrels a day. In addition to this, three gas wells yielding 100,000,000, 40,000,000, 15,000,000 and 14,000,000 cubic feet of gas daily have also been drilled. The oil is being delivered to the Texas Company on a contract basis at about $2 a barrel, and the gas to the Wichita and Kansas Gas Companies at 3½ cents a thousand cubic feet, also under contract.

The Hominy Pool

Once worthless Indian lands, this Osage-Sinclair lease changed hands for over $12,000,000.

The most prolific source of oil production on the lease, the Bartlesville sand, has been penetrated to a depth of about 2,353 feet. The limit of its productivity is unknown. There are other sands and strata at varying depths on the property which are likely to yield a substantial production as time goes on, and the lease develops.

Earnings of Osage-Hominy were originally estimated by the management at about $1,500,000 annually. The actual net earnings for the first six months ending June 30, 1917, were $812,810, or $1,625,620 annually, about $1.62 a share. This was *from a part* of present production. The monthly earnings figures have shown a consistent increase. They were May,

$142,970; June, $158,396; July, $225,000; August, $250,000. Current earnings are reliably estimated to be running around $3. a share.

Dividends are being paid at the rate of 10%, or 50 cents annually. There appears no reasonable doubt as to the ability of the company to continue this payment so long as anything like the present liberal margin is earned, even with war tax deductions, or a reasonable decrease in the price of Oklahoma crude oil.

Market History

Introduced to trading on the New York Curb, after last December's "peace break" at around 7, the shares became a favorite trading medium, and under a large turnover jumped to 8. By the end of January the quotation stood at 9⅜, with a turnover of 250,000 for that month. The shares have always been active, with an average daily turnover of around 3,500, and, excepting for minor independent fluctuations, their price has closely followed the general trend, in common with Oklahoma P. & R. The price of "Osage" and "Oak" have affected trading sentiment on the Curb to no small extent during the past year, and the pair have been regarded as barometers of the general situation. The extreme high for the year was 10¼ and a low of 6⅜ was registered in the recent semi-panic. At around 7¼ at this writing, Osage sells on a parity with "Oak"—a reminder of the forthcoming merger.

BALANCE SHEET, JUNE 30, 1917

Assets	
Properties, wells, etc.	$6,194,908
Cash on hand and in banks	158,525
Oil account	153,075
Accounts receivable	271,391
Deferred items	70,243
	$6,848,145
Liabilities	
Capital stock	$5,000,000
Accounts payable	128,874
Deferred items	31,460
Surplus	1,687,810
	$6,848,145

Osage-Hominy has not indulged in the pyrotechnical display which traders confidently expected. Its fluctuations have not seriously endangered the health of any holder with a weak heart, as so many other oil shares on the New York Curb have done and—are expected to do. It has behaved on Broad Street like a respectable stock, with a dignity befitting its minor leadership and the good company it traveled with. Its clean-cut career on the market has put it through the crucible preparatory for the second stage of its sphere of usefulness.

The Merger

Out of a clear sky came a letter recently to Osage-Hominy stockholders from the joint management of the Osage and Oklahoma companies, announcing that the latter offers to exchange all outstanding stock of Osage for shares of Oklahoma, share for share. The reasons given for this move, summarized from the circular, are: The Oklahoma company, a $10,000,000 corporation, already owning 561,200 shares of Osage, is a complete cycle in the oil industry, owning production, refineries, markets, a good-will, and trade-names of repute "acquired by years of successful and honorable business." The Oklahoma company also owns a refining plant at Muskogee, Okla., an 83-mile pipe-line system, a marketing organization, tank cars, and distributing stations. The circular claims that substantial economies and improved facilities for selling, transporting and marketing will result from the merger.

Under the merger, which at this writing seems assured, Osage-Hominy will come under the same administration and be affiliated with Sperry Oil & Gas Co., New York Oil Co., Muskogee Refining Co., Crown Pipe Line, Crown Petroleum Co., and the Union dés Petroles d'Oklahoma, all subsidiaries of the parent company.

Who will benefit by the merger? Should Osage stockholders follow the lead of Muskogee stockholders who were likewise taken into the fold over a year ago?

While we believe that Oklahoma stockholders gain the advantage, and the merger stands to benefit them considerably, the union of Osage in a brotherhood of smaller companies which have uniformly given a good account of themselves, will not only round out the ambitious plans of the Crawford management, but will create a solidity and stability for all stockholders, Osage as well as Oklahoma, which should offset any paring down of present temporary advantages. "United we stand, divided we fall"

is a maxim, the importance of which is significant in uncertain times like the present. Osage stockholders are getting the equivalent of 7½ a share, with the advantage of sharing in the other fellow's luck, thrown in for good speculative measure.

While stockholders of Osage are not compelled to make the exchange, the gradual absorption of the floating supply of Osage stock will lessen public interest in it. It is morally certain that its market quotation will not get away from parity with Oklahoma P. & R. while the merger is in process of consummation. Finally, consideration of the recognition that the latter is the principal stockholder of Osage, with its welfare undoubtedly in mind, prompts the recommendation that shareholders need not hesitate to accept its offer to exchange their stock, share for share.

Conclusion

The future of Osage-Hominy is bound up closely with the fortunes of Oklahoma P. & R. Co. It will cease to exist as a separate entity within a few weeks.

No positive appraisement is possible here, involving exhaustive consideration of the parent company, discussion of the future of the Mid-Continent field, and the outlook for the oil industry in general.

The confident opinion of Dr. I. C. White, state geologist of West Virginia, a gentleman in whom well-informed oil men place confidence, is a beacon light in a wilderness of doubt.

"The Hominy tract is one of the most promising single oil properties ever developed in the State of Oklahoma. It occupies the crown of a broad structural dome in strata, the nature of which shuts off competitive drilling on two sides of its nearly square area. On this great dome a row of splendid oil and gas wells has been drilled over a line one and one-tenth miles in length. On this, it is confidently estimated, that 1,350 acres will yield oil at the rate of 15,000 barrels per acre, within a period of five or six years, while 750 acres additional will yield 7,500 barrels per acre within the same period, or 26,000,000 barrels from the Bartlesville sands alone, worth a net return of $17,000,000 within five or six years from the half interest. In this estimate, oil from sands other than the Bartlesville does not enter, nor the vast quantity of gas present in most of the six higher sands, which should add two to three millions in dollars to your company's interest."

Valuation of Lease

Making due allowance for enthusiasm, by cutting the valuation of Dr. White in half, we arrive at a figure around $10,000,000 as a valuation for the lease, against the $6,000,000 purchase price. We believe we are nearer the intrinsic mark in so doing. Whatever the actual figure might ultimately be, it is certain that the Oklahoma parent is inheriting a fine estate from its youngest son, and there is little doubt that the property will not suffer from the comprehensive and economical administration of a management which enjoys the confidence of its stockholders, and has risen equal to all emergencies in the past.

MARKET STATISTICS

		Dow Jones Averages			50 Stocks			Breadth
		10 Bonds	20 Indus.	20 Rails	High	Low	Total sales	No. issues
Monday,	Nov. 19	83.05	71.51	77.05	63.89	62.77	406,200	193
Tuesday,	" 20	83.35	72.80	77.58	65.18	63.81	727,600	217
Wednesday,	" 21	83.45	73.57	78.32	65.89	64.39	794,100	219
Thursday,	" 22	83.50	72.95	78.26	65.86	64.85	576,200	201
Friday,	" 23	83.45	74.23	78.46	66.16	64.91	509,700	184
Saturday,	" 24	83.65	73.51	78.16	65.81	65.13	336,500	173
Monday,	" 26	84.15	74.03	78.13	65.90	65.03	430,900	191
Tuesday	" 27	84.12	73.80	77.13	65.96	64.94	521,400	202
Wednesday,	" 28	84.03	73.25	76.42	65.14	64.33	386,100	193
Thursday,	" 29	Stock Exchange closed (Thanksgiving Day).						
Friday,	" 30	83.65	72.65	75.80	64.26	63.40	351,800	172
Saturday,	Dec. 1	83.55	72.86	76.21	64.18	63.69	133,200	127

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.

Cities Service—Announces that new 12-inch water main, installed by it from Arkansas River to El Dorado field in Kansas, had been placed in operation.

Cosden & Co.—Combined earnings of Cosden & Co. and Cosden Oil & Gas Co. for nine months ended Sept. 30, follow: Net after all expenses, including part depreciation and taxes, $7,953,155; interest on bonds, $516,504; surplus for nine months, $7,436,651.

Illinois Pipe Line—Semi-annual dividend of $10 a share, payable Dec. 17, is a $2 reduction from last declared of $12. Earnings in 1916 were $25.50 a share, against $21.60 in the preceding year. The company is credited with making liberal depreciation allowances in 1916, because, notwithstanding large investments in new lines and equipment its plant account, as shown in the 1916 annual report, showed a reduction of about $300,000. These new lines, to a large extent, are located in Wyoming, where the development of new large fields has required the building of pipe lines, storage and pumping facilities, to take care of increased output.

Indian Refining—Dividend of 3%, payable Dec. 20, is the first dividend on common stock since October, 1911. Prior to that time they were at the rate of 12%. It is reported that as long as earnings continue at existing rate, a dividend of 3% would be declared every three months, thus placing the common stock on a 12% yearly basis.

Merritt—Two new wells have been added to the producers from the Wall Creek sand in Big Muddy. A second deep well was completed Oct. 30 by Midwest Refining, drilling on Merritt ground. A well was brought in by Ohio Oil Co., Oct. 17. This is the third deep well on ground owned jointly by Ohio and Merritt companies. This brings total Wall Creek sand wells on Merritt ground in Big Muddy up to nine.

Midwest Refining—A new process, said to yield 75% of gasoline, has been tested and worked out at company's plant at Casper, Wyo. A modification of the Rittman process; it was developed under the supervision of Dr. David T. Day, formerly with the U. S. Geological Survey. Experiments have been conducted for a year, and its efficiency is believed to have been established—Successful development of the process for the extraction of gasoline from oil is expected to result in considerable benefit to the company.

Oklahoma P. & R.—Announces that enough stock of Osage-Hominy has been deposited to insure merger of that company into the Oklahoma Co.

Osage-Hominy—Recent reports are that company now has around 90 producing wells with a production approaching 10,000 barrels daily. Earnings for 1917 are predicted to be $3 a share after taxes.

Royal Dutch—The 74,000 sub-shares were sold in the United States in 1916 have been admitted to the official list of the Amsterdam Stock Exchange, effective Dec. 15, 1917.

Sinclair Gulf—Has made its first report since operations were begun. For four months ended August 31 income after deduction of interest and taxes, but before depreciation, is $1,662,155, or at annual rate of $6.99 a share. Balance sheet shows assets, $6,049,861, and liabilities, $2,907,948, leaving net assets $3,141,912. Total assets $57,418,-385 are claimed. Since Aug. 31, note and bonded indebtedness has been reduced $1,635,000.

S. O. of Kansas—Increase of $4 in the extra dividend reflects the improvement which has taken place in the Kansas field in the latter part of 1917. New production has been brought in, which has been of advantage to the company until recently a refining and marketing concern. This came at a time when refining capacity was increased, and as a result business has been especially satisfactory. Company has shown average yearly net of $50 a share. Net profits in 1916 were $63.69 a share, against $28.19 in 1915. Net assets Dec. 31, 1916, were $4,418,683, against $1,032,289 on Dec. 31, 1911. Surplus was $2,418,683.

S. O. of New Jersey—Directors have elected A. C. Bedford, heretofore president, as chairman of the board and chief executive officer. The board also elected as a director and Pres., W. C. Teagle, formerly vice-Pres. and director, and Pres. of Imperial Oil. The changes were made necessary by pressure on A. C. Bedford of his duties as chairman of the Petroleum Committee of the Council of National Defense.

Tidal Oil—This producing subsidiary of Tide Water Co. has purchased the property of Maple Oil Co., in the center of the Irvine Field, Ky., in which it holds leases on 4,000 acres of land, with 14 producing wells. Although the price is not announced, the price asked for Maple Oil Co. recently was $100,-000. The Tidal Co. plans to start drilling work immediately.

Tidewater Oil—Reports gross $21,011,672 for nine months Sept. 30, compared with $17,009,363 for the full year of 1916. Net for period, after charging off $1,427,319 for depreciation, was $7,494,372, and balance dividends $6,935,549, equal to $21.74 a share. Surplus on Sept. 30 was $12,593,475, and aggregate assets $50,797,219, of which $34,600,-000 represent oil-producing properties, refineries and pipe lines.

Oil Inquiries

Two Cheap Oil Shares

G. H. E., Philadelphia, Pa.—Metropolitan Petroleum is a risky oil speculation. An exchange of its shares for those of Island Oil and Transport Corporation is proposed on the basis of one share of Island for two of Metropolitan. The Island Company is now being financed by strong bankers, and it is quite possible that interest will be temporarily revived in "Met. Pete," and an active market created for the new Island Oil shares. But, we have been able to discover little but doubtful speculative value in either stock, and our advice to holders of Metropolitan Petroleum is to sell if they do not wish to gamble further with their money.

Boston-Wyoming is a semi-prospective Wyoming oil proposition, which is unattractive because of its liberal capitalization, $5,000,000 (par $1). The company has a small production from its holdings in the Big Muddy field, and present price of the shares probably discounts production and earnings to date. There has been a boom of proportions in Wyoming oil stocks, which appears to have reached a halt for some time to come. The risk involved is not commensurate with the chance for profit, in purchasing or holding these shares.

"Jersey" Preferable to S. O. of New York

E. J. G., Lake Charles, La.—Standard Oil of New York has big possibilities over a period of years and the stock should sell higher after peace is declared and the company recovers its export business in China. We hardly suggest the purchase of the stock at this time, however, because of the general uncertainties ahead of the market. We favor more Standard Oil of New Jersey, selling around 500. This stock, however, should not be purchased unless one is willing to tie up money in it regardless of temporary market fluctuations. It is the kind of a stock to buy and lock up for a period of years. It should show handsome profits to the purchaser, for a long pull.

S. O. Indiana Comparatively High

J. A. R., Shreveport, La.—Standard Oil of Indiana notwithstanding its decline is still selling comparatively high. We believe that over a period of years, the stock will have a value as high as any previous market level, but before that time, if the war continues much longer, substantially lower prices than now current should be seen. The war will have the effect of making large inroads into the earnings of the Standard Oil group, and it is not likely that Standard Oil of Indiana will escape the burden. We doubt whether large distributions are in sight during the war period. We do not advise a purchase at this time.

Why Oil Stocks Should Not Be Bought Yet

L. B., Chicago, Ill.—We do not believe the time has arrived when Standard Oil stocks may be regarded as "cheap enough," for they sold at considerably lower prices in 1914. Why Standard Oil stocks should be excepted from the rule that nearly all investment securities of high merit are now selling below 1914 and in some cases below 1907 levels is not quite clear unless it is due to the fact that the supply and demand situation in oil is still a very bullish one. As a consequence of high prices and prosperity in the oil industry, the Standard Oil companies are still enabled to pay out handsome dividends but it is a question whether this liberal dividend policy will be continued, particularly if the war lasts another year or longer. Not only is there always a possibility in the oil industry that new pools will be discovered resulting in a temporary increase in the supply such as will overbalance the demand and undermine the structure of high prices; but the oil companies are facing, under war conditions, an entirely new and unnatural situation. Excess profits taxation and price fixing together with restriction of consumption, particularly gasoline, may very well seriously interfere with the earnings and dividends of the Standard Oil Companies.

To sum up, we hardly think it advisable to buy now Standard Oil of New Jersey or any of the other Standard Oil stocks for investment along the lines you suggest. Better wait, for if you will not be afforded the opportunity of buying at much lower prices, you will at least be able to buy with more assurance.

A Newcomer in the Oil Field

T. A. B., Hoboken, N. J.—Ohio Cities Gas appears to be liberally capitalized. The company's earning power has not yet been tested through a period of depression in the oil industry, which is now its chief field. We do not consider a purchase of the stock advisable, particularly for investment.

Illinois Pipe Line is selling low in comparison with the high prices of last year, but not low in comparison with the 1915 low of 108 and the 1914 low of 120. With a general depression in the oil industry such as is likely to come Illinois Pipe Line may prove no exception to the rule of heavily declining values and we do not believe that the stock is a purchase for investment now.

BUSINESS AND FINANCE SERIES

No. II. PART 2.

Outlook for Copper Stocks

Why the "Coppers" Have Declined—Effect of the Excess-Profits Taxes—Investment Position of Copper Securities —Is It Time to Purchase Them?

By JAMES SPEED

THERE are so many factors to be taken into consideration in discussing the outlook for copper securities that one hardly knows where to begin. Of course, the matter of excess-profits taxation is of leading importance. In common with a great many other companies the coppers are wrestling with, first, the problem of interpretation of the excess-profits laws, and secondly with its effects not only upon earnings and hence dividends, but upon working capital.

Speaking generally the copper companies are in a much better position in regard to working capital than many war-boomed industrials. In the first place they have been chary in the matter of dividend distributions and they have not been under the expenses for new construction and equipment comparable to the expenditures by industrials for the same purposes. Hence the coppers find themselves in a very strong cash and quick assets position.

In the matter of dividends there is much room for debate. In view of the fact that the excess-profits tax has still to be interpreted it would appear that any accurate forecast along the dividend line is hardly possible at the present time. But the opinion is expressed in informed copper circles that the day of "extras" has passed, that those corporations which have stuck to their "normal" dividend rates should be able to continue paying those rates, but that those companies which have jumped their regular dividend rates to higher levels may have to do some scaling down to a more moderate basis.

One may gain some idea of the difficulty of applying the excess-profits tax at this time from the fact that recently an association of mining interests with headquarters at New York addressed a memorandum to the Commissioner of Internal Revenue asking that mining ore reserves developed since January 1, 1914, be regarded as earned surplus since they represent the result of capital and labor expended, and also that the excess-profits tax be figured on the present value of mining properties rather than the par value of the securities. The latter suggestion involves a valuation of the mining properties of this country.

DECLINES FROM HIGH OF FIVE IMPORTANT COPPERS

	1916 High	Recent Low	Decline	P. C. from High
Utah	130	75	55	42
Anaconda	105	56	49	46
Miami	49	28	21	42
Nevada Con. ...	34	17¼	17	50
Copper Range..	88	44	44	50

It will be readily seen that if either or both of these suggestions are adopted it will mean radical changes in the excess-profits tax computations.

Importance of the Technical Position

The average investor when he becomes interested in a security, devotes his research to an examination of intrinsic values, earning power, working capital, management, etc. This plan is a good one as far as it goes—and in many cases it proves adequate for all purposes. But in many, many other cases it proves inadequate and then the investor blames Wall Street or what other medium for popular disapproval may be in vogue at that particular time. There is another and exceedingly important factor which should always receive the care-

fullest study, and that is the technical position of securities.

"Oh, I am an investor, not a trader," the average investor replies. The fallacy in his reply is this; the market action or techinical position of stocks more often than not *foreshadows approaching and maturing developments affecting intrinsic values which may not be expressed in terms of earnings or balance sheets for weeks or even months to come.*

And at this point let me digress to say that no conclusion is allowed to appear in this publication which has not taken account of the technical position of the security to which it refers.

The recent action of the coppers illustrates the importance of the technical position of securities and Utah Copper is a striking specific example. This year the high point of Utah was 118¾ reached May 25 last. During the last six months there has been great activity in this stock which at times to the inexperienced eye had the aspects of accumulation but which the trained market observer soon realized was but market "camouflage" to conceal a widespread and long-continued distribution. Obviously Utah was a sale at 118 and all the way down to 90 which represented the zone of major distribution, in spite of the strong position of the company and its very large earnings. Notwithstanding its present low price there appears to be no considerable accumulation and therefore it is not the time to buy.

Utah Copper

The recent weakness of Utah Copper, which sold down to 71½ on November 5 as contrasted with a high in May of 118¾, raises the question as to whether there will not be a decided revision in the dividend rate at the next directors' meeting. At the last dividend meeting the board declared the regular dividend of $1.75 per share and an extra dividend of the same amount, which, it was carefully indicated at the time, was intended as a "capital distribution."

According to well-informed quarters the extras on Utah will have to go, which would leave the regular rate of $7 per share and which would mean a return on a price of 76 approximately 9%. In ordinary times 10% is considered a fair return on a mining investment, but these are times of abnormally high interest returns, and it would appear that if Utah's dividend rate is to be reduced to the amount expected, the market price of the stock has not fully discounted such reduction.

Utah's Decline in Earnings

Utah's last quarterly report furnished a genuine sensation. Net operating profits apparently shrunk approximately $8,000,000. Presumably, the net for the third quarter is the balance left after allowance for excess profits taxes. It is said also that the poor showing was due in part to delay in making deliveries of metal, a cause which will be corrected in the current quarter. The company's quarterly statement compares as follows:

	Third Quarter	Second Quarter
Net operating profits....	$1,030,221	$8,898,627
Other income...........	1,804,003	1,664,913
Total net profits........	2,834,225	10,563,541
Dividends	6,497,960	5,685,715

The company in the third quarter produced 54,762,544 pounds of copper, against 56,403,465 pounds in the second quarter.

It must not be forgotten, however, that the above statement was compiled on the basis of calculating unsold copper at 13½c a lb. As the price of copper has not remotely approached this price since the upward movement started after the war began, it would seem that the management was conservative, to say the least, in figuring its last earnings statement. Taking the difference between the company's price and the Government price of 23½c a lb. would mean a gain in Utah's earnings for the last quarter of more than $5,000,000. Utah is earning, figuring on the basis of the Government price for copper, at the rate of about $20 per annum. As it is one of the largest and one of the lowest of low-cost producers it is a stock that will be well to bear in mind when its technical market position warrants purchasing.

Anaconda's Earnings Curtailed

Next to Utah Copper the Anaconda issue has shown the greatest decline from the 1916 high in actual points, though not in actual percentages. Like Utah the stock has shown distribution from the high of 116⅜ close down to 50, and at the present prices of between 55 and 60 per share

shows no signs of an accumulation presaging an important upward movement of the stock.

Anaconda at the present is paying at the rate of $8 per annum on its stock, or 16% on the par value of $50 per share. Unlike Utah Copper and others of the Jackling group, Anaconda makes an earnings statement to its stockholders only once a year. It is certain, however, that Anaconda's earnings for the current year will be less than for 1916 because of the severe strike which began early in September and from which the company is slowly emerging. On Sept. 5 last all mining activities in Montana, including smelting operations, were suspended, which meant a curtailment in copper production of in the neighborhood of 30,000,000 lbs. monthly. At the present writing the strike situation has been settled and Anaconda is operating 18 of its mines. Within another month it is expected, barring unforeseen and unfortunate developments, that Anaconda will be back to normal operations.

Estimate for 1917

Interests close to Anaconda estimate that in spite of the curtailment in production and excess profits taxes, Anaconda will earn this year close to $28,000,000 or about $12 per share. This estimate premises that the taxes will run not in excess of $2 per share.

Anaconda has placed itself in a very strong financial position as the result of war prosperity. On December 31 last the company had quick assets, including cash, metals and materials on hand, of more than $38,000,000, not including the amount set aside for retiring the $16,000,000 notes. It is figured that the current year will see quick assets on the balance sheet totaling between $45,000,000 and $50,000,000, or the equivalent of approximately $20 per share on the stock.

All this, however, is water that has passed the mill. Current year's earnings will show a very great decrease from the $21.80 earned last year and which marked the high-water level of Anaconda's earnings. From now on Anaconda will have to reckon with higher costs and taxes. The stock at 57 yields more than 14%, which is a suspiciously high return even in these times for a security of the intrinsic soundness of Anaconda. There is talk of a reduction in the dividend rate.

COPPER RANGE—INCOME AND DIVIDENDS

	Net Income	Capital Stock: Dividends Paid	Capital Stock: Earned Per Share	Capital Stock: Paid Per Share	Surplus for Year
1907	$2,588,200	$2,304,810	$6.74	$6.00	$283,390
1908	1,486,775	1,536,740	3.87	4.00	†49,965
1909	1,363,563	1,536,930	3.55	4.00	†173,367
1910	1,300,858	1,537,340	3.38	4.00	†236,482
1911	804,561	1,357,104	2.04	3.50	†552,543
1912	1,692,565	788,428	4.29	2.00	904,137
1913	490,533	1,082,697	1.25	2.75	†592,164
1914	494,600	....	1.25	....	494,600
1915	3,564,762	1,182,003	9.26	3.00	2,382,759
1916	6,078,190	3,941,648	15.57	10.00	2,136,542

Note.—The Copper Range Co. succeeded theCopper Range Consolidated Co., which was dissolved on Oct. 8, 1915. †Deficit.

Nevada Consolidated's Deficit

For the quarter ended Sept. 30 last Nevada Consolidated showed an actual deficit of about half a million dollars although production and recoveries were approximately the same as for the preceding quarter. An accumulation of unsold copper which piled up while negotiations were in progress with the Government and which, as in the case of Utah, was inventoried at 13½c. per. lb., together with increased operating expenses, was responsible for the deficit. Nevada's stockholders should take heart, however, for in the same report the statement was made that as a result of orders placed by the Govern-

ment, Nevada had sold all of its metal due for delivery before the end of the year and that the condition of unsold copper was merely a temporary one.

A great improvement in Nevada's financial position was made possible by the record breaking earnings for 1916 and the company's finances have been further strengthened during the first six months of the current year. In 1916, Nevada earned net, $15,002,051, equal to $7.51 on approximately 2,000,000 shares of stock outstanding. After the payment of $7,497,963, or $3.75 per share in dividends, there was carried to surplus $7,504,088. The company wound up the year with an inventory of metals on hand and in transit amounting to $9,265,013 against $4,998,829 in 1915, and cash and cash items of $3,130,907 against $486,161 in 1915. In addition the company had at the end of 1916, $494,375 invested in marketable securities against nothing in 1915. The earned surplus of the company was increased from $5,201,143 as of December 31, 1915, to $12,939,510 at the end of 1916.

Dividend Outlook

At present Nevada is paying at the rate of $2 per annum in dividends and for the current year has paid $1.50 on the regular dividend account and $1.65 on the extra or "capital" account. If the burden of war taxation and increased costs should compel a general reduction in copper dividend rates, doubtless Nevada would not escape, but it seems in as about as good a position as any to maintain regular dividend rates. At a market price of 17 Nevada yields nearly 12% on its present dividend basis, which is perhaps about the return it would be reasonable to expect on a mining stock of this character in times like the present.

Copper Range

Copper Range Co. has been in existence since 1899 but came into investment and speculative prominence in 1915 when its capital was increased from $2,500,000 to $10,000,000 and it took over all the assets of the Copper Range Consolidated Company. It is now the second largest producer of copper in the Lake Superior District and has had especially prosperous years since 1914. It will be noted from the income and dividend table that it has been adding to surplus only during the years 1915 and 1916 to an extent which would be appreciated by the stockholders.

The table does not cover the 1917 earnings or estimates, but about the middle of November the company announced the full quarterly dividends for 1917 amounting to $10 for the year or $2.50 for each quarter. It is claimed that these dividends will be earned over and above all federal income and excess profits taxes and that there will be a balance to be added to surplus but there is given no estimate as to how much will be added to surplus. In 1916 over two million dollars was added to this account, and even with the excellent earnings forecast, it would seem extremely doubtful if a like sum can be added to surplus this year.

During October the *Boston Commercial* commented upon Copper Range as follows: "It is one of the wonders of the Lake Superior district that this mine can continue for such a long period to get out such high quality rock. It now averages better than 35 pounds to the ton. Like all the properties in this district, costs have risen and the difficulty in maintaining a full working force is apparent."

So in spite of the fact that Copper Range has higher qualifications over other companies, it has the same family troubles at least in proportion as all the others. The 1916 figures were based on sales of copper at 25.28 cents per pound and this price will have to fall with others and all companies placed on the same price fixing scale. Ten dollars per share was the dividend paid in 1916 and the same rate prevails for this year. But in 1916 the earnings were $15.40 so that on the same basis of forecasting for 1917 much of that $5.40 over will go for taxes. The company will have to earn more than $15.40 to keep its same position in the investment and speculative field.

The position of the stock appears no different from other copper companies. A study of transactions during the past few months does not show any accumulation of stock by the large interests. In fact every result of close analysis shows that distribution is yet the principal element and shareholders need not be too optimistic as to the possibility of any upward movement. The price movements in copper stocks are more apt to show changes in intrinsic values than in many other classes of securities,

and with the present unfavorable factors, such as labor trouble, increased costs, and transportation difficulties, stockholders have rather cause for apprehension than for a comfortable outlook. This opinion takes into consideration the quality of the ore and the character of the business which is acknowledged to be above the average.

Naturally if conditions are forecast by the present price of the stock, one might suggest that much has been discounted. But the time for purchase does not yet seem to have arrived and, should there be no alleviation of present difficulties, it is not inconceivable that the coming year may see a reduction of the dividend.

Miami's Decline

Miami is also breathing hard after its breathless run-down on the 1916-17 toboggan from its dizzy height of 50 in the copper-boom of 1916 to its recent modest low of 25, registered in the reaction slump of 1917; and looks distinctly limp at its present quotation around 28.

The high of 50 was staged in an atmosphere of rosy opulence, engenedered by the illusion of an apparently overflowing treasury. The heat of the October-November, 1916, enthusiasm was maintained by added fuel in the shape of extras, commenced in January, 1917, for the first time in the company's history. A 50 cents extra was quickly raised to $1 in April and continued at the June meeting. Dividends of $5 regular and $2.75 extra (25 cents to the Red Cross) was sufficient proof of all being well—on the surface.

But before taking a long range view of the future it is always well to look over the past, viz:

	I 1911-1915	II 1916
Average dividends paid........	$1.81	$5.75
Average price of shares.........	22.00	40.00
Average earnings a share.......	2.30	10.39
Aver. selling price of copper...	15.10	24.46

The signs of war-prosperity and inflation in these approximate figures are not wanting to the casual student. If further evidence is required, two recent statements throw sidelights which might have been more timely in the joyous scramble of more optimistic times. Vice-President Channing, after the meeting October 1, 1917, said: "On account of the strike which we had during August and September, we thought it only fair to omit the extra dividend." More recently, "Following dividends, $1.50 and $1 extra, declared April 1917: $1.50 and $1 extra declared June, 1917, were paid *out of surplus* and profits which accrued *and were earned prior to March*, 1913."

Down to Earth

It is clear that the record price of 50 and the princely return of $7.75 never at any time reflected the true inwardness of the matter, and it does not appear that around current levels former sellers are desirous of taking back any stock.

At around 28, Miami is getting down to earth again. The many factors of higher costs, smaller profits, and the menace of war taxes—not yet figured out or known—will at least hold it there, if the relapse is not even more severe than the feverish joyride of recent months.

MELONS FOUND UNDERGROUND

It is often said, in explanation of such productiveness, that the large dividends of oil and mining companies should not be considered dividends at all, but rather a using up of the capital itself. Oil, copper, zinc, sulphur, and the other mineral products, come from the bowels of the earth; and when they are used up there is no more to draw upon. They are not permanent investments, like railroads or factories. This is true, but only to a certain extent. Often the so-called oil and mining companies are engaged in manufacturing to fully as great an extent. Often they add to their deposits of oil or other minerals as fast as any deposit is used up, thus always in reality keeping the capital intact. Then, too, many of them have paid such large dividends that the capital has been returned to the shareholders time and time again. Finally, many have deposits of ore that will last for generations.—*The Saturday Evening Post.*

Mining Inquiries

No Time to Hold Speculative Mining Stocks

R. W. J., West Point, Ga.—Calumet & Jerome is a mining prospect with some promise, but the price of the stock fully discounts favorable developments to date. The company has shipped some ore, but not enough to class it as a producer* The stock certainly has speculative possibilities, but the wisdom of holding it in a market like the present with so many uncertainties surrounding industrial enterprises in this country, on account of the war, is open to question. We suggest that you sell it and reinvest your money in some sound dividend paying security when the proper time for "buying again" arrives.

Where Magma's Value Lies

S. E. L., San Diego, Cal.—Magma is an excellent purchase for a long pull, but it should be bought outright only on weakness and held regardless of temporary market fluctuations. We cannot foresee what conditions may interpose to offset favorable developments in the Magma mine, in the event the war is prolonged for a long time yet. The company will have to pay fairly heavy excess profits taxes. The real value of the stock lies in the potential value of its ores.

Alaska Gold for the Long Pull

J. B. L., Spokane, Wash.—There has been no new development in Alaska Gold and that very fact is bearish on the stock because conditions have been so discouraging that they could hardly be expected to change except for the better. Alaska Gold has been an unfortunate investment for many people. At its present price, it appears to have discounted the nearby unfavorable factors. For the first six months of 1917 interest charges were earned a little more than twice over. There is real value back of this stock in the way of large bodies of low-grade free milling ore, development, machinery and equipment, and it should eventually seek higher levels. Since you bought the stock at such high levels, it would seem inadvisable for you to take your heavy loss now, as the stock has speculative possibilities of an attractive kind if a holder is willing to look ahead for several years. We advise you to hold it for a long pull. However, we do not advise you to buy any more of the stock now.

Anaconda One of the More Attractive Coppers

H. D. L., Nashville, Tenn.—Generally speaking, the coppers are still selling high and we do not think they are yet in a position to buy indiscriminately for investment. However, Anaconda is one of the strong members of the group and perhaps this stock might be advantageously purchased outright, but as the technical position of the stock does not show "inside" buying, we believe an opportunity will soon be afforded to purchase at lower levels, which would, of course, be more satisfactory than buying now.

A Low Priced Copper with Possibilities

C. A., Akron, Ohio.—Consolidated Arizona Smelting has made very satisfactory progress during the past year. The stock is as yet considerably removed from becoming an *established* dividend payer, but the management is working along sound lines and the smelting and mining costs have been reduced materially in the last year or two. Still the company is a high cost producer and it is doubtful if it can show any margin of profit at all with copper less than 14 or 15 cents a pound. The stock must therefore be regarded as in a speculative position, since the company is now benefiting from abnormal and temporary prosperity in the copper industry and cannot expect to maintain earnings at the present rate indefinitely. It is a fair long pull speculation, and if you own it, we advise you to hold it, if you care to assume the risk. We do not advise a purchase at the moment.

Dome Mines and Taxation

M. B. G., Rochester, N. Y.—Dome Mines has suspended dividends and is in an extremely uncomfortable position on account of heavy Canadian taxation. Eventually, this property will probably pan out alright, but in view of the uncertainties as to the duration of the war, we do not consider it advisable to hold the stock now for a long pull especially when so many established dividend paying securities may be purchased at panic levels.

Ray Consolidated's Promising Future

R. O. S., Cincinnati, Ohio.—Ray Consolidated is one of the better grade investment coppers, and in time should be intrinsically worth considerably above present levels. Recent reliable estimates of the earnings of Ray on 23½ cent copper, indicate only $3.30 net (after deduction of excess profits tax), compared with dividend rate of $4 per share. The company will probably find it necessary to place the stock on a regular $2, annual basis, discontinuing extra payments. The stock is now adjusting itself to this outlook. We advise you to retain your present holdings, and disregard temporary fluctuations, assuming that you are prepared to see it through any further possible decline. Its future is more promising, from the long range point of view, but, although it may go still lower, there is justification in the confident belief that the stock will ultimately adjust itself to a higher level.

UNLISTED SECURITIES

The Powder Companies

Prospects for Leading Companies—What the War Has Done for Them—Phenomenal Earnings—Their Chances for Profit on a Peace Basis

By WILLIAM T. CONNORS

Of all the war stocks the earnings of the powder companies might naturally be expected to be the most explosive. Of the du Pont and Hercules companies, making smokeless powder, this has certainly proved to be true. Of the Atlas company, making black powder and dynamite, it has been less true. The Aetna has had more than its share of troubles, but is at last showing good earnings.

The probable duration of the war is, of course, the great question that enters into the prospective value of all munition stocks. If the war is to last five years more, as some are predicting, the powder companies certainly have a bright prospect ahead of them.

That is the speculative element in the powder stocks and predictions in regard to it are idle; but it makes these issues especially attractive to the investor who believes the war must last several years longer.

E. I. du Pont de Nemours & Co.

E. I. du Pont de Nemours, the original founder of the great powder company, arrived in the United States in 1800, and established the first powder mill in this country near Wilmington, Del., in 1802. The business was never incorporated until 1903, when gross business had reached over $25,000,000 annually.

Up to the outbreak of the present war the company was doing a prosperous but not phenomenal business. Its net operating income was running about $5,000,000 or $6,000,000 a year. On a little over $16,000,000 preferred stock it was earning from 30 to 40 per cent., and on $29,428,000 common it was earning from 13 to 18 per cent. In 1913 and 1914 the preferred paid 5 per cent. dividends, and the common 8 per cent.

The great war poured almost fabulous wealth into the coffers of this company. The tremendous extension of the business made reorganization desirable, and in 1915 the present company was formed, with a capitalization substantially the same as now outstanding, which is shown in the tabulation above.

TABLE I—DU PONT'S CAPITALIZATION

	Authorized	Outstanding
Common stock (par $100)	$80,000,000	$58,854,200
Common in reserve	....	*31,426
Debenture stock 6% cum. voting	10,000,000	60,813,950
Debenture stock 6% cum. nonvoting	100,000,000	
Debenture stock in reserve		*45,006

*Estimated value of shares of sub-cos. not owned by present company.

In 1916 gross income was more than twelve times that of 1914, and its net reached the stupendous sum of $82,107,693. Even on its increased capitalization it was able to pay and did pay 6 per cent. on the debenture stock and 100 per cent. on the common, and still carried forward to surplus $19,598,821, equal to over 33 per cent. on the common outstanding.

New Fields

In the meantime the company has been extending its business into new fields. The manufacture of an artificial leather called fabrikoid, based on soluble cotton, started

as an experiment, is now going on at two plants, at Newburgh, N. Y., and Toronto, Can., at the rate of about 60,000 standard yards a day. Harrison Bros.' plant for making aniline salts and acids, from which dyes are produced, has been acquired, and there are reports that the company has its eye on the Federal Dye & Chemical plant also. It is expected that after the war du Pont's excess plants will be turned into dye works.

Last August the company announced that it had begun the construction of a coal tar dye plant at Deepwater, N. J. The explosive and the coal tar dye industries are naturally closely allied. The company starts in the dye industry with the necessary raw materials, independent of Europe; with a strong chemical and engineering organization; with unequalled plant and laboratory facilities; with a thorough commercial organization; and with plenty of capital.

The company's powder capacity is now over 11,000,000 pounds of smokeless daily. It is expected that it can supply American needs and help to supply our allies also. New nitrate fields in Chile were recently purchased capable of producing 100,000,000 pounds of nitrate yearly.

A recent purchase is that of the real estate, buildings and equipment of the Betts Machine Co. of Wilmington.

Present Outlook

Since the company gives out earnings only once a year, its current earnings are not known, but judging from results in 1916 they will be large. Something like half of them will go to the Government under the excess profits tax program, but even so it is probable that the amount left for the common stock will be large.

Equities behind the stock have been increased enormously. At the end of 1914, property, patents, real estate and investment securities were scheduled in the balance sheet at $57,053,000 and current assets at $26,379,000. At the close of 1916 the same items were $135,527,000 and $82,325,000, respectively.

The company is involved in litigation, the most important of which is in reality a family quarrel. In February, 1915, the Du Pont Securities Co. bought from T. Coleman du Pont for $14,000,000 common stock, which subsequently rose to a value of about $60,000,000. Suit was brought by Philip S. du Pont attacking the legality of this sale and endeavoring to secure these profits for the E. I. du Pont Co. The court directed that the stockholders vote on the matter, and the Du Pont Securities Co. faction won. Hence these big profits will not accrue to the main company. Other litigation of a less important scope is still pending.

It is, of course, the prospect of extremely heavy taxation and the presumably temporary character of the demand for powder that causes the common stock to sell around 280. What the company can earn for

TABLE II—AETNA EXPLOSIVES' PLANTS

Name of Plant	Location	Product
Aetna	Aetna, Ind.	Guncotton
Sayville	Sayville, Ill.	Commercial powder
Goes	Goes, Ohio	Black powder
Jefferson	No. Birmingham, Ala.	Commercial powder
Keystone	Emporium, Pa.	Commercial powder
Prescott	Prescott, Ont., Can.	Fulminate of mercury
Pluto	Ishpeming, Mich.	Commercial powder
Brewster	Port Ewen, N. Y.	Blasting caps
Sinnamahoning	Sinnamahoning, Pa.	Commercial powder
Harrington	Xenia, Ohio	Blasting caps
Emporium	Emporium, Pa.	Commercial powder
Warren	Warren, Pa.	Guncotton
Carnegie	Carnegie, Pa.	Phenol and T. N. T.
Howard Smokeless	Emporium, Pa.	Smokeless powder
Howard Picric Acid	Emporium, Pa.	Picric acid
Noblestown	Noblestown, Pa.	T. N. A.
Oakdale	Oakdale, Pa.	T. N. T.
Silverford	Mt. Union, Pa.	Smokeless powder and T. N. T.
Drummondville	Drummondville, Quebec, Can.	Smokeless powder

its stock in peace times is an insoluble question. Dividends on the common are now at the rate of 4½ per cent. quarterly, giving a yield of about 6½ per cent. on the investment at 280. The stocks are unlisted and the market for them is sometimes narrow, since they are closely held. The debenture stock, which is practically equivalent to a bond, in view of the company's big assets and earnings, is selling around 96.

Aetna Explosives Co.

Aetna Explosives common stock, which has no par value but was issued at $20 a share, sold at $1.25 last April. Since then, although the company is in the hands of receivers, the stock has risen $10.75, a surprising advance for a stock in receivership, especially under the generally discouraging investment conditions which have prevailed.

Throughout its history, up to the receivership, this company suffered from bad management. For example, the receivers have settled five claims against the company for commissions aggregating $3,500,000, for the small cash consideration of $40,000. But suits are still pending by E. W. Bassick and others for about $4,000,000 additional commissions, a part of which is represented by notes issued by Moxham and Belin, formerly president and treasurer of the company. These pending claims represent more than $6 a share on the stock. It is not likely, however, that any such sum can be collected from the receivers.

The company was incorporated November 24,1914, but there is little use now ir going into its history previous to the receivership. It is sufficient to say that it was then unable to secure profitable results.

The company owns, either directly or through subsidiaries, the plants shown in Table II herewith. The receivers suspended the operation of six of these plants, which were not operating at a profit, but the Drummondville plant in Canada is recently reported as having been reopened. The company now has very little idle capacity in the United States, and even that will soon be busy again.

Over $17,000,000 has been raised for this property at various times—but that of course says nothing as to the present value of the business. A balance sheet was made up by the receivers July 31 last, and is shown in Table III.

It is evident at a glance that the great question here is as to the item "Plants, equipment, etc., $13,993,021." Out of this sum, $11,219,494 represents military plants and equipment, and the question as to what these will be worth after the war is a very difficult one to decide. These plants were built at high prices for materials and labor and under an inefficient management. An estimate of their value after the war can be little more than a guess, but from all the information available I should hardly feel like setting a higher figure than $2,000,000 as a safe one.

This figure is a guess, not an estimate, but it is interesting to note that, allowing the balance sheet figures for all other items and figuring the preferred stock at par, we arrive at an asset value of about $7 a share for the common.

But as we all know, assets do not make prices for any stock. That fact is easily shown by the price at which the common sold last April—$1.25.

Turning to earnings, it is useless to go

TABLE III—GENERAL BALANCE SHEET OF AETNA EXPLOSIVES

Assets:		Liabilities:	
Plants, equipment, etc.	$13,993,021	Preferred stock	$5,495,900
Cash	1,105,861	Common stock	12,568,290
Notes receivable	81,461	Funded debt	2,226,800
Accounts receivable	1,902,217	Notes pay., etc.	3,981,019
Materials	4,349,947	Deprec. fund	69,795
Finished product	3,329,764	Accident fund	59,040
Investment	157,263	Insur. fund	13,477
Collateral securities deposits	314,000	Surplus	1,075,638
Deferred charges	256,422		
Total	$25,489,961	Total	$25,489,961

back beyond the date of receivership. Since then the net income by months, before amortization of any of the value of the military plants mentioned above, has been as follows:

April 20 to May 31	$533,929
June	518,437
July	595,690
August	583,000
September	574,264
October	682,803

Earnings on a monthly basis of, say, $650,000 would mean at the yearly rate of nearly 135 per cent. on the preferred stock and $11 a share on the common—before depreciation or amortization of plants, and before the excess profit tax.

A reasonable depreciation charge would perhaps be about one-half the current earnings. That would still leave earnings on the common of $5 a share annually before taxation. What the excess profit tax will be for this company is at present anybody's guess.

But the most serious difficulty with these figures is that we don't know how soon the war may end. It would take three years to write off the excess valuation of the military plants on the basis above suggested—but the war might end in one year or at any other time, in which case the value of the stock would be problematical.

In other words, the stock is essentially a gamble on the duration of the war—a hopeful gamble, but still a gamble. The conservative investor will naturally let it alone. As for the speculator, if he wants to deal in it he should buy cautiously on a scale down and should take fair profits when he sees them available.

Atlas Powder Co.

Under the anti-trust laws the courts compelled the E. I. du Pont de Nemours Powder Co. (the predecessor of the present E. I. du Pont de Nemours Co.) to subdivide into three separate companies. One of these was the Atlas Powder Co., which was incorporated in October, 1912.

This company makes dynamite and black powder. It has therefore not benfited from the war to any such extent as the du Pont company, which makes smokeless powder, but its business has been considerably improved nevertheless.

It has six dynamite plants, located in New Jersey, Pennsylvania, Michigan, Missouri, California and British Columbia, and seven black powder plants in Pennsylvania, Kansas, Illinois, Tennessee, Oklahoma, California and British Columbia. Its annual capacity is approximately 90,000,000 pounds of dynamite and 1,800,000 kegs of black powder. In 1915 the company acquired the entire capital stock of the Giant Powder Co., Consolidated, and the Giant Powder Co. of Canada, Ltd., and in 1916 it took over the entire property and business of the Fort Pitt Powder Co.

Gross sales in 1916 were $20,652,000, or substantially four times those of 1913, while total income was $2,940,000 against $503,000 in 1913. There is outstanding $7,198,000 of preferred stock, on which in 1916 about 40 per cent. was earned and 6 per cent. paid, and $5,002,000 common, for which 51 per cent. was earned. In 1916, 25 per cent. dividends were paid on the common, the average amount outstanding during the year having been $4,656,000. The company now has no bonds.

The regular rate on the common is now 8 per cent., but extras of 3 per cent. each were declared for the first three quarters of 1917 and 2 per cent. extra for the fourth quarter, making 19 per cent. for the year.

Like all the other companies benefiting from the war, Atlas will have a big excess profit tax to pay, and that is presumably the reason for the reduction of the special dividend from 3 per cent. to 2 per cent.

Condensed balance sheets for 1913 and 1916 are shown in the table herewith:

ALTAS POWDER, ASSETS AND LIABILITIES, 1913 AND 1916

Assets:	1916	1913
Plant, real estate, etc.	$10,210,608	$3,301,163
Good will, etc.	....	1,373,902
Deferred debits	38,735	33,243
Current assets:		
Cash	1,487,486	344,760
Bills and accts. receiv.	2,245,658	856,817
Finished product	972,877	452,258
Materials and supplies	2,952,662	1,232,221
Securities	519,593	116,438
Total assets	$18,427,880	$7,710,801

Liabilities:		
Pref. stock	$7,198,000	....
Com. stock	5,002,400	$3,000,000
Funded debt	....	3,000,000
Reserves	1,483,821	291,889
Profit and loss surplus	2,834,248	277,869
Current Liabilities:		
Interest on bonds	....	180,000
Bills and accts. payable	1,909,410	961,043
Total liabilities	$18,427,880	$7,710,801
Net work. cap. (or excess of current assets over current liabilities)	$6,269,126	$1,861,450

It will be noted that the increase in capitalization has not been equal to the apparent increase in assets, and this is true even after allowing for the high scale of prices on which bills receivable, bills payable, and inventories are now based. Moreover, the bonded indebtedness has been eliminated and preferred stock substituted, and working capital exceeds the par value of the common stock.

At the end of last year net tangible assets applicable to the common stock amounted to $156 a share, and its current quotation in the market for munition stocks is now 165 to 170. From the assets point of view, therefore, the stock is not overvalued in the market. From the income point of view, we are as usual confronted with the question of what will happen after the war.

In 1913, on a peace basis, 10.76 per cent. was earned on $3,000,000 of common stock, which then followed $3,000,000 of funded debt. Since then the plant, real estate, etc., have, roughly speaking, been tripled and capitalization doubled. So far as can be judged, Atlas ought to be able to continue the regular 8 per cent. dividends on the common stock after the war. Under present investment conditions, this should warrant a price around par for the security.

Hence it is fair to assume that the present price of 165 includes something like $65 a share to represent the prospect of extra dividends based on war earnings, or the accumulation of assets which results from plowing in war profits and carrying big inventories.

I am inclined to feel that the stock is quite high enough at this price, considered from the investment standpoint. Various issues having, to all appearances, just as good earnings and general prospects are selling lower than Atlas.

Hercules

The Hercules Powder Co. is one of the three branches into which the du Pont Co. was split by the court decision under the anti-trust law. It manufactures dynamite, blasting powder, black powder and smokeless, and it has been nearly as prosperous as a result of the war as the du Pont Co. itself.

In 1914 it earned 15 per cent. on its common stock and paid 8 per cent. dividends; in 1916 earnings were 228 per cent. and dividends 99 per cent. In 1917 the company's profits have been smaller, but it is still earning at the estimated annual rate of about 70 per cent. on the common stock and paying 2 per cent. regular and 2 per cent. extra quarterly. Taxes will of course cause a further reduction in earnings.

The general conditions surrounding this company are similar to those affecting the du Pont Co. The present price is around 245. The stock is unlisted and inactive. The company is carrying an unusually large working capital—nearly $21,000,000 at the end of 1916 against a little over $4,000,000 at the end of 1914.

OUR NEW TYPE

Since the old 10-point type was too large to permit us to increase the contents of this publication, without adding to the number of pages, and since the 8-point type which we tried and which was the equivalent of adding seven or eight pages to the Magazine, proved unsatisfactory to many of our readers, we have adopted a 9-point Caslon type, which in size is midway between the 10 and 8 points. This new type can be easily read even under trying conditions and at the same time permits us to add several more pages of matter to each issue which we could not have done had we reverted to the 10-point. We trust this satisfactorily solves our problem of adding to our editorial contents without greatly increased expense in these high-cost times and that our readers will approve of our plan to give them more than formerly for their money.—*Editor.*

Unlisted Security Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.

Aetna—Plant at Drummondsville, Que., has resumed operations. It was closed in 1917 when operations were not on a profitable basis. The acid departments are being operated at capacity to manufacture sulphuric and nitric acids; output is running at the rate of 3,000 tons a month. These are shipped to plants in United States for compounding explosives. Judge Mayer authorized receivers to erect, at cost of $200,000, a plant for manufacture of caustic soda, to expend $70,000 for alterations to plant at Carnegie, Pa., and $61,000 for a nitric acid plant at Emporium, Pa.

Am. Pipe & Construction—Application has been made to the U. S. District Court for a decree vacating the appointment of Robert Wetherill as receiver. Mr. Wetherill was appointed September, 1917. It is contended that the facts in the suit did not entitle complainants to a receiver and that the court had no jurisdiction.

Am. Pneumatic Service—In half year to June 30 earned $1.51 per share on 126,576 2d pfd. This means a year's dividend earned in six months. Profits for 2d pfd. for 1917 ought to be close to $3 a share. The weak point is whether Government will continue the use of pneumatic mail tubes. On the assumption that use of these tubes will not be suspended, the dividend can be continued.

Autosales Corp.—Was incorporated November with $7,500,000 of authorized capital stock in shares of $50 each ($3,000,000 6% non-cumulative participating pfd. and $4,500,000 common 6% and participating) as successor of Autosales Gum & Chocolate Co., sold at receiver's sale. The operations by receivers for 21 months to Oct. 1, 1917, realized earnings of $389,620, being for 1916 $207,839, and for 9 months of 1917 $181,781.

Borden's Milk—Following meeting of directors of the Dairymen's League, it was announced that farmers would not increase the price of milk for December, but would continue to charge on the October basis until the first of 1918.

Carbon Steel—The proxy campaign waged by the Uptegraff party had as its chief argument that president and several friends voted themselves $512,000 in bonuses, while allowing stockholders $300,000 in dividends. At the meeting recently it was decided that bonuses must be approved by the committee and also by stockholders. The Whelan-Uptegraff committee recently won a victory in the West Virginia courts in the appointment of a master to take the testimony of Mr. McKnight and others in a suit brought by stockholders against the company. The committee authorized such steps as may be necessary on the $512,000 already paid out to President McKnight.

Connecticut Brass—Net for nine months to Sept. 30 were at the rate of over $700,000 for the full year, 1917.

Curtiss Aeroplane—Report, nine months ended Sept. 30, 1917, of company and subsidiaries shows: Sales, $9,877,281; operating profit, $2,713,639; expenses, etc., $764,059; gross, $2,102,032; net, $1,821,566. After deducting $315,000 dividend for nine months on preferred, there remains $6.90 a share on the common for the period, or $9.20 annually before war taxes. Profit and loss surplus, $2,107,139, compares with $824,474 Nov. 30, 1916. Beginning Jan. 1, 1918, company will be turning out about $9,000,000 of aeroplanes and parts a month. Of this $4,000,000 will be taken care of in old plants and $5,000,000 in the new Buffalo plant.

du Pont de Nemours—Condemning as illegal certain features of the plant for reorganizing and and financing the company, Vice-Chancellor Backes has granted an injunction restraining use of corporate assets to retire capital stock in impairment of rights of bondholders.

Eastman Kodak—Has been named as defendant in a suit filed by United States Aristotip Co. of Bloomfield. Violations of the Sherman anti-trust law are charged, allegation being that company attempted to effect a monopoly of the sale of photographic print papers.

Federal Shipbuilding—This subsidiary of the U. S. Steel Corp. has received contracts from the Emergency Fleet Corp. for 10 steamships of 9,400 tons each. As the result of high-pressure construction company has practically completed facilities in three months for building 12 big ocean freighters at its yards in the Hackensack Meadows. Buildings cover 10 acres.

Mergenthaler Linotype—The net profits for year Sept. 30, totaled $1,883,159, a decrease of $15,941. Balance sheet shows surplus $7,350,324, compared with $7,067,164 for fiscal year of 1916. Brooklyn factory turned out 1,882 machines during the year, the greatest number in company's history. Several hundred old machines taken in exchange were rebuilt. During the year 757 additional printing offices installed the linotype.

Peerless Truck—Reported that General Vehicle plant on Long Island has been sold for $2,500,000. This plant was never a money maker, the profits which averaged about $8 a share annually for the three years, coming from the Cleveland plant, which makes the pleasure cars and trucks. Peerless, with the proceeds from the sale, will have sufficient money to retire its note issue of $5,000,000.

TOPICS FOR TRADERS

Going With the Trend

A Common Sense Plan for Building Up a Line of Long Stock in a Bull Market—A Question and Its Answer

By THOS. L. SEXSMITH

ONE of the compensations in the career of one who is continually giving to the public, through his writings, the results of numerous studies and observations in his chosen field, is that now and then it is his good fortune to be on the receiving end of a good idea.

The world is full of people and all live people give birth to ideas, good and bad, from time to time. But a rattling good idea, with the refreshing element of something of newness, is a rare thing. One is half inclined to figuratively reach out and slap the author of a helpful thought on the back and exclaim, "Good for you, old man, that makes effort worth while!"

The receipt of the letter which is herewith reproduced was one of the many occasions when the writer of this article has been on the receiving end. For the benefit of the many wide awake people who make up the happy family of MAGAZINE OF WALL STREET readers, the complete letter is given, together with the writer's answer to the author's query.

An Interesting Letter

"To the Editors, THE MAGAZINE OF WALL STREET:

"Gentlemen:

"For some time I have had in mind a plan of operating in the market, but before beginning it I would appreciate your candid opinion of it.

"My idea is to wait until a panic or a large decline has brought stocks away below intrinsic values. Then to buy a stock which has a wide speculative swing, somewhere near the bottom, and then to buy additional amounts of the same stock every few points up as the stock advances, at the same time, however, increasing the number of points margin on my total holdings.

"To make this clear by a concrete example: Referring to the enclosed sheet, I intend to buy 20 shares of Union Pacific common around 110 with $500 capital. I would thus have a 25 point margin and be margined down to 85. When the stock advanced to 119 I would buy 5 additional shares, making 25 shares I would have in all. My original $500, plus accrued profit of $180, would give me $680 in all, which would be equivalent to 27 points margin on my 25 shares, and keep me safe until the stock should decline to 92.

"I would then buy an additional 5 shares at 127, another 5 shares at 134, and so on until the last lot was bought at 180.

"You will note that with every purchase I am increasing the amount of my margin until I have a margin of 48 points.

"I take a stock like Union Pacific because on the long swings it has a range of from 50 to 100 points. Even in the last broad swing upwards from 1914 to 1916—a period in which railroad stocks moved very little for reasons you are familiar with —Union Pacific moved up to 152 from 112, 40 points. At 152 as an 8 per cent. stock it was on a 5.3 per cent. yield basis. As a 10 per cent. stock, which I believe one can now consider it, it would have to go to 190 to get to a 5.3 per cent. yield, so a rise on the next big bull market to 190 does not seem unreasonable.

"Furthermore, with the apparent better feeling of the Public Service Commissions towards the railroads as a whole, it is possible that the next big speculative move will carry a good speculative leader like U. P. even higher than 190.

"Of course, if conditions should arise which threatened a turn in the market at any time before our stock reached the desired figure, I would sell out at a very fine profit. If my stock reached 190, and the market looked strong and likely to go

higher, I would, of course, hold on with perhaps a stop order a short ways below.

"You will note from the attached sheet that by buying all the way up we double the profit I would have made by just holding my original 20 shares. The only feature I am not sure of is whether my margins are big enough to protect me against a temporary decline. From my study and experience I am inclined to think my margins are ample, but I am, nevertheless, planning to have a reserve fund of about equal amount ready for an emergency.

"Such a plan could only be started during a panic, but the results are so profitable that it is well worth the patience to wait—showing as it does 300 to 700 per cent. profit.

"I trust you will pardon me for writing such a lengthy letter, but the plan to me seems to have such large possibilities that I am rather anxious to try it, and believe that the market will soon be right to start. Of course, I will wait until I am fairly sure of the money market.

"I would appreciate your letting me know if you see anything seriously wrong with the above mentioned plan, and your opinion as to whether or not you think it would succeed in the next bull market.

"Sincerely,

"________."

Our reply to the letter was as follows:

The Answer

"Dear Sir:

"Beg to acknowledge receipt of your interesting letter in which you describe your proposed plan of taking a semi-investment position on Union Pacific around 110 if it should decline to that figure, and to buy it on a scale up, scaling your buying orders in such a manner as to progressively add to your holdings, at the same time increasing the number of points margin on your growing holdings. I must admit that your plan has much to commend it, and deserves consideration to say the least.

"I note that you are chiefly concerned with the query whether the initial capital, twenty-five points, with an additional number of points held in reserve, would be sufficient to see you through, once the original commitment had been made.

"This is a point which you will readily understand no one may seriously claim to be in a position to answer for you. The question could not be answered in a positive sense even in ordinary times. But the present state of affairs has nothing of the usual or ordinary about it. We are, as you know, deep in the vortex of a world war. When it may end, and when the great business and investment machinery will again return to working conditions approximating those of normal peace times, we do not yet know.

"We do know, however, that the war has already changed nearly all our former standards of measurement. In the twenty-year period prior to the beginning of the war, investment stocks of standing were always an excellent purchase whenever their market price reached or fairly approached a 6 per cent. income yield basis. Conversely, they were always a good sale whenever the market price had advanced to the point which had reduced the income yield to 4 per cent. or less. This readily understood and easily applied formula was in itself quite sufficient to guide the investor of the period referred to. If he had selected his investments or speculations with care and intelligence, buying and selling accordingly as the extremes in yield were reached, he could have made a very satisfactory return on the capital employed in his operations.

DETAILS OF BUYING PLAN

Shares	Price	Total No. of Shares	Capital	Margin in Points	Margined down to
20	110	20	$500	25	85
5	119	25	680	27	92
5	127	30	880	29	98
5	134	35	1,090	31	103
5	141	40	1,335	33	108
5	148	45	1,615	35	113
5	155	50	1,930	38	117
5	162	55	2,280	41	121
5	169	60	2,665	44	125
5	175	65	3,025	46	129
5	180	70	3,350	48	132
Sell	190		4,050		

or 700% profit.

A New Standard of Yield

"As I write this many of the highest grade investment issues are selling in the open market on a basis of over 8 per cent. yield. Measured by old-time standards they are now at a price which makes their pur-

chase a more attractive proposition than it would have been had one been able to snap them up at the extreme low prices of the panics of 1903 and 1907.

"But the question still causes concern; has the prevailing low prices of investment stocks fully discounted the great advance in income yield on the world's highest grades of security obligations?

"Answer that question and I will tell you whether your 50 points margin will be sufficient to safely hold your intended purchase of Union Pacific at 110 through any further possible depression in prices before the beginning of the next grand bull movement which you very properly assume should follow on the heels of the present long decline.

Loss Restriction Applicable

"I would suggest that while you are still in doubt about the bottom for Union Pacific that you make use of the principle of loss restriction discussed in some detail in the Readers' Round Table department in the November 10 issue of The Magazine of Wall Street. You might buy your first lot of Union Pacific at 110, if the opportunity presents itself, and place a five-point stop-loss on it. If it then declined to 105, you would be automatically put out of the market for the time being, with your original capital impaired only to the extent of five points and commissions. Should it thereafter decline to par, you might try a second purchase, with a like amount at risk. Finally, you should strike a level at which your five points margin protection would hold your purchase. With your original twenty-five points margin, and a little of your reserve used to pay commissions, you would have enough to make five distinct trys for bottom. Five chances appear to me better than one any time.

"Using this plan of procedure, there is, of course, the possibility of being stopped out, and then seeing the making of the real turn in the market which might deny a further opportunity to buy back again as cheaply as you sold out. However, I do not consider that risk quite as important as the possibility of losing your entire margins on the initial purchase.

"Furthermore, any sharp rebound in the whole market which would be impressive enough to give evidence that an actual turning point had been reached in the long downward swing would more than likely be followed by a secondary reaction which would enable you to repurchase reasonably close to the former bottom, at the same time giving you a proper place for the location of your stop loss order.

"Once the turn in the market comes, and you get in near the bottom levels, the odds begin to tend in your favor. As the market advances, you go along with it, adding to your line as the action of your stock enables you to do so, also adding to your security by increasing the extent of your margins. In a genuine bull market, which you require to make any large return on your capital, reactions should not exceed by any important amount 50 per cent. of the previous advance. Anything greater than that in the way of a reaction from the upward trend should be looked upon with suspicion. As long as your margins amply provide for the normal expectancy of reaction from a given point, with your reserve to fall back on, and start again if necessary, you are working along correct lines and your operations may be considered conservative in so far as that term may be applied to marginal transactions.

Should Prove Profitable

"If the expected upward movement develops in an orderly manner you are in an excellent position to take advantage of it, and your profits should, as you say, yield a generous return on the capital at stake.

"One thing I should like to impress upon your mind in connection with the possible practical use of your proposed plan is that mapping out a course of action for yourself and following the course are two distinct things. Many well laid plans, attempted in good faith, are abandoned under the pressure of adverse circumstances or the intoxication of early success.

"If you think your plan has merit, as it certainly appears to have, and you decide to try it out at the first favorable opportunity, by all means do so. But once you start it, stick to it—see it through. It is only by such a test that you can establish beyond all doubt whether the plan is actually as good as you think it is, and if so, is it suitable to your purposes and temperament."

Technical and Miscellaneous Inquiries

Wiring Orders

Q.—I wish to ask you one or two questions. If I wire a broker to buy me 100 shares of stock, and I wish to sell stock later, how should I word my message to him. Should I say "Close out my 100 shares of Sou. Pacific" —or how should I word my message?

Ans.—There is no particular form in which you are required to wire your broker in giving instructions as to buying or selling stock. Simply make it plain as to the name of the stock, the amount and the disposition to be made of it, that is, whether it is to be bought or sold. It is generally understood that the stock is to be bought or sold at the market if no price is specified, or no limit is named.

Excess-Profits Tax

Q.—Am puzzled about the excess profit tax. Your statement on page 150 of the issue of Nov. 10 appears ambiguous. You say "the remaining income" (i. e. gross profits less exemptions) "is graduated according to the per cent earned on the capital invested." This is exactly what it is not. In estimating the tax the only time that the invested capital becomes a factor is in the 7% to 9% exemption. After this deduction is made and the other exemption is deducted from the gross profits, the balance is, as I understand it, the excess profit which is subject to tax.

Now if my understanding of the tax is correct, how is it a graduated tax on the capital invested, as you say?

Can you straighten me out?

Ans.—Section 201 of the law says that there shall be levied "a tax equal to the following percentages of the net income:

"Twenty per centum of the amount of the net income in excess of the deduction (determined as hereinafter provided) and not in excess of fifteen per centum of the invested capital for the taxable year"; etc.

That is, the rate of the tax is determined by the per cent earned on the "invested capital for the taxable year." If that per cent is not in excess of fifteen, then the company's "net income in excess of the deduction (determined as hereinafter provided)" is taxed at the rate of twenty per cent.

You have evidently misunderstood this paragraph of the law, perhaps because two different per cents are mentioned together—the twenty per cent tax rate, and the fifteen per cent earned on capital.

You have also misunderstood Mr. Connors, who did not say that this is "a graduated tax on the capital invested," but "graduated according to the per cent earned on capital invested," which is a very different thing.

Loaning Rates

Q.—Kindly explain the loaning rates as published in the daily papers, for instance, when the rate on a stock is given as 4%.

Does the 4% mean that loans will be made on the respective shares at 4% and does it mean call or time loan? Also, what is meant by "flat"?

Ans.—Your interpretation of the loaning rates is wrong in that 4% for example, does not mean that loans will be made on the stocks at this rate. What it does mean is that the man who lends the stocks will pay 4% interest on the collateral which is put up to secure the stock. In this case, it is the stock that is being borrowed, and the money is being put up as collateral, not the money that is being borrowed on st[illegible] that is being put up as collateral. The term "flat" means that the stock is in such heavy demand by borrowers that they are willing to put collateral without receiving any interest thereon.

SUGGESTIONS IN REGARD TO INQUIRIES

The very heavy volume of inquiries which this publication is now receiving makes it necessary to ask our subscribers to co-operate with us in order that we may maintain and improve the high quality of service which the Investors' Personal Service Department renders to our readers. We therefore suggest that:

(1) Not more than two or three inquiries be submitted at one time. Occasionally a subscriber sends in a long list of securities asking for an opinion on each. The careful manner in which the Investors' Personal Service Department handles its inquiries makes it impossible to give such inquiries the immediate attention necessary, without slighting other inquirers.

(2) Write all inquiries on a *separate* sheet of paper, which should bear the writer's name and address.

(3) Enclose stamp or stamped and addressed envelope.

The above suggestions are drawn up for the benefit and protection of our readers and those inquiries which conform with them will receive first attention.

When a reader wishes a special investigation or a special analysis of a security or a subject we shall be pleased to submit an estimate of the special charge for such work.